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BEFORE THE ARIZONA CORPORATIC

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AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
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JUN 13 2012
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COMMISSIONERS
GARY PIERCE - Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF CLEAR SPRINGS UTILITY COMPANY, INC. FOR AUTHORITY TO INCUR LONG-TERM DEBT.	DOCKET NO. W-01689A-11-0401
IN THE MATTER OF THE APPLICATION OF CLEAR SPRINGS UTILITY CO., INC. FOR A RATE INCREASE.	DOCKET NO. WS-01689A-11-0402

STAFF'S NOTICE OF FILING DIRECT TESTIMONY AND REQUEST TO PROCEED WITHOUT A HEARING

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") hereby provides notice of filing the direct testimony of Jeffrey M. Michlik and Dorothy H. Hains in the above-referenced consolidated matters.

As discussed in Staff's direct testimony, Staff's recommended revenue requirements for Clear Springs Utility Company, Inc.'s ("Company") water and wastewater divisions are $216,023 and $47,802, respectively. Therefore, on a stand-alone basis, the water and wastewater divisions fall within the classifications of a Class D utility and Class E utility, respectively.[1] Consistent with Commission treatment of similar Class D and Class E utilities, Staff's direct testimony recommends applying a rate of return of 11.5 percent and determining the Company's cash working capital allowance by using the formula method.

Since rate applications for Class D and Class E utilities are normally processed without a hearing, Staff recommends that these consolidated matters be similarly processed. Staff believes this recommendation is in the public interest because it will promote judicial economy and save the

[1] A.A.C. R14-2-103(A)(3)(q).

Company from incurring the additional time and expense of a hearing. Accordingly, Staff respectfully requests that these consolidated matters be processed without a hearing and that the hearing dates currently scheduled to begin on August 6, 2012 be vacated.

RESPECTFULLY SUBMITTED this 13th day of June, 2012.

Scott M. Hesla
Staff Attorney, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

Original and thirteen (13) copies of the foregoing were filed this 13th day of June, 2012, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Copies of the foregoing were mailed this 13th day of June, 2012, to:

Steve Wene, Esq.
MOYES SELLERS & HENDRICKS LTD.
1850 N. Central Avenue, Suite 1100
Phoenix, Arizona 85004

Clear Springs Utility Company, Inc.
Attn: Bonnie O'Connor
Southwestern Utility Management
P.O. Box 85160
Tucson, Arizona 85754

Monica A. Marty

BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
Chairman
BOB STUMP
Commissioner
SANDRA D. KENNEDY
Commissioner
PAUL NEWMAN
Commissioner
BRENDA BURNS
Commissioner

IN THE MATTER OF THE APPLICATION OF CLEAR SPRINGS UTILITY COMPANY, INC. FOR AN INCREASE IN RATES	)))	DOCKET NO. WS-01689A-11-0402
IN THE MATTER OF THE APPLICATION OF CLEAR SPRINGS UTILITY COMPANY, INC. FOR AUTHORITY TO INCUR LONG-TERM DEBT	)))	DOCKET NO. W-01689A-11-0401

DIRECT

TESTIMONY

OF

JEFFREY M. MICHLIK

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JUNE 13, 2012

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CLEAR SPRINGS UTILITY COMPANY, INC.
DOCKET NOS. WS-01689A-11-0401 AND W-01689A-11-0402

Clear Springs Utility Company, Inc. ("Company") is a certificated Arizona public service corporation that provided water and wastewater services during 2010 in Cochise County, Arizona. The average number of customers per the Company during the test year was 565 for the water division and 386 for the wastewater division.

On November 3, 2011, the Company filed with the Arizona Corporation Commission ("Commission") an application for a permanent rate increase, with a test year ending December 31, 2010. Also on November 3, 2011, the Company filed an application requesting authority to incur long-term debt to make system improvements. A Procedural Order, dated June 5, 2011, consolidated the rate and financing applications.

Rate Application:

Water Division

The Company-proposed rates, as filed, produce total operating revenue of $266,673, an increase of $98,423, or 58.50 percent, over test year revenue of $168,250 to provide a $333,861 operating income and a 35.00 percent rate of return on its proposed $96,746 fair value rate base ("FVRB") which is its original cost rate base ("OCRB").

The Utilities Division ("Staff") recommends rates that produce total operating revenue of $216,023, an increase of $47,773, or 28.39 percent over the Staff-adjusted test year revenue of $168,250, to provide a $4,432 operating income and an 11.50 percent return on the $38,541 Staff-adjusted FVRB and OCRB.

The Company-proposed rates would increase the monthly bill for a typical 5/8 x 3/4-inch meter residential customer, with a median usage of 3,318 gallons, by $7.19 (46.5 percent), from $15.47 to $22.65. Under the Staff-recommended rate design for permanent rates, the monthly bill for a typical residential customer would increase by $1.85 (11.95 percent), from $15.47 to $17.31. (Schedule JMM-W20).

Wastewater Division

The Company does not request an increase or decrease in total operating revenue for its wastewater division; however, it does propose to change the rate design. Therefore, the Company-proposed rates, as filed, produce the $47,802 test year total operating revenue and a zero dollar and percent increase to provide a $9,556 operating income. The Company proposes a FVRB of negative $13,244, which is its OCRB. The Company presents its rate of return on rate base as negative 72.15 percent.

Staff agrees with the Company's proposal not to increase or decrease total operating revenue from the $47,802 test year amount for the wastewater division. Therefore, the Staff-recommended rates produce the $47,802 test year total operating revenue and a zero dollar and percent increase to provide an $8,273 operating income. Staff recommends an OCRB of negative $13,016 which is its FVRB. Calculating a rate of return on the negative rate base is not meaningful. Accordingly, Staff's recommended $47,802 revenue requirement is based on providing sufficient cash flow of $8,190.

The Company-proposed rates would decrease the monthly bill for a typical 5/8 x 3/4-inch meter residential customer, with a median usage of 3,226 gallons, by $0.24 (2.62 percent), from $9.24 to $9.00 (Schedule JMM-WW20). Under the Staff-recommended rate design, the monthly bill for a typical residential customer would decrease by $0.24 (2.62 percent), from $9.24 to $9.00. (Schedule JMM-WW16).

Staff Recommendations (not related to the Financing):

Staff recommends:

- Approval of Staff's rates and charges as shown in schedules JMM-W19 and JMM-WW15. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax, per Arizona Administrative Code ("A.A.C.") Rule 14-2-409(D)(5).

- Directing the Company to docket with the Commission a schedule of its approved rates and charges within 30 days after the date the Decision in this matter is issued.

- Directing the Company to file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least five Best Management Practices ("BMPs"), in the form of tariffs that substantially conform to the templates created by Staff, for Commission review and consideration. The templates created by Staff are available on the Commission's website at http://www.azcc.gov/Divisions/Utilities/forms.asp (see Engineering Report).

- Directing the Company to submit a detailed water loss reduction plan with Docket Control, as a compliance item in this docket, before any rate increase adopted in this matter becomes effective (see engineering report).

- Directing the Company to monitor the water system closely and take action to ensure the water loss is 10 percent or less by December 2014. If the water loss continues to exceed 10 percent, calculated on an annual basis, the Company shall, within 270 days of a decision in this case, filed a detailed plan to reduce water loss to 10 percent or less, or prepare a report containing a detailed analysis and explanation demonstrating why a water loss reduction to 10 percent or less is not feasible or cost effective (see Engineering Report).

- Directing the Company to file water loss progress reports semiannually with Docket Control, as a compliance item in this docket, and for the first water loss progress report to be filed by June 30, 2013, and for Staff to determine that any future rate case filed by the Company is insufficient if these items are not properly submitted (see Engineering Report).

- Since the Company failed to comply with Commission Decision No. 68443 which ordered the Company to resolve the water storage deficiencies of Public Water System ("PWS") #02-048 and PWS #02-050 prior to filing its next rate application, directing the Company correct the water storage deficiencies of PWS #02-048 and PWS #02-050 before any rate increase adopted in this matter becomes effective (see Engineering Report).

- Directing the Company to immediately repair the leaks that Staff observed during its field inspection and to file, within 15 days of the effective date of the Commission's order in this matter, documentation showing that it has complied (see Engineering Report).

- Directing the Company to file with Docket Control, as a compliance item in this docket, an affidavit indicating that the water testing referenced in Table 4B has been completed and that the Company is delivering water to customers served by its non-community systems that complies with applicable water quality standards and to file its affidavit on a quarterly basis with the first affidavit due for the first quarter of 2013, by April 30, 2013, and to continue filing such quarterly reports until the non-community water systems become community water systems (see Engineering Report).

- Authorizing the depreciation rates by individual NARUC account, as presented in Table B of Staff's Engineering Report.

- Directing the Company, as a compliance item in this case, to notify its customers of the authorized rates and charges approved in this proceeding, and their effective date, in a form acceptable to Staff, by means of an insert in its next regularly-scheduled billing and to file copies with Docket Control within 10 days of the date the notice is sent to customers.

Financing Application:

The Company's financing application, as filed, seeks approval for a $511,000, 20-year amortizing loan from the Water Infrastructure Finance Authority of Arizona ("WIFA") to finance capital improvements at well sites 3, 7, and 18 and to replace plant items in the distribution system. Staff reviewed the Company's proposed capital improvements and finds a $426,249 Staff-adjusted cost as reasonable.

Staff calculated a pro forma 0.83 debt service coverage ratio ("DSC") using Staff's recommended permanent rates. This pro forma DSC shows that cash flow from operations is insufficient to cover debt service on the proposed loan; thus, in addition to Staff's recommended permanent rates, the Company would need an additional source of funds to meet its obligations.

Staff determined that additional surcharge revenues of $42,443 would be needed to provide the Company $10,000 of uncommitted cash flow, resulting in a 1.84 DSC. Additional surcharge revenues of $42,443 combined with Staff's recommended $47,773 increase in permanent water rates represents a 53.62 percent increase over test year water revenues of $168,250. The combined increase $90,216 ($47,773 + $42,443) provides sufficient cash flow to meet all obligations including WIFA's requirement to fund a "Debt Service Reserve Fund" equal to 20 percent of debt service and $10,000 of uncommitted cash flow in the water division. A $4.99 per 5/8 x 3/4-inch meter equivalent monthly infrastructure surcharge would provide the needed additional funds under Staff's assumed loan terms. The infrastructure surcharge combined with Staff's recommended permanent rates would increase the typical bill for a 5/8 x 3/4-inch meter customer with a median use of 3,318 gallons by $6.84, or 44.21 percent, from $15.47 to $22.30. (Schedule JMM-W21)

Staff Recommendations pertaining to the Financing Application:

Staff recommends:

- Granting the Company authorization to incur an 18- to 22-year amortizing loan in an amount not to exceed $426,249 pursuant to a loan agreement with WIFA and at an interest rate not to exceed that available from WIFA for the purpose of making capital improvements at Well Sites 3, 7, and 18 and replacing plant items in the distribution system as recommended in Staff's Engineering Report, subject to the condition that the Company is authorized sufficient revenue in this rate case via permanent rates and an infrastructure surcharge to meet its debt service and the associated loan covenants.

- Establishing an expiration date for any unused authorization to incur debt granted in this proceeding of December 31, 2014.

- Directing the Company to file as a compliance item in this Docket, within 30 days of the execution of any financing transaction authorized herein, a notice confirming that such execution has occurred and a certification by an authorized Company representative that the terms of the financing fully comply with the authorizations granted.

- Directing the Company to provide to Staff's Compliance Section, a copy of any WIFA loan documents executed pursuant to the authorizations granted herein, within 30 days of the execution of the loan, and also to file a letter in Docket Control verifying that such documents have been provided.

- Granting the Company authorization to charge an infrastructure surcharge to become effective at a date and in a manner as subsequently authorized by the Commission.

- Directing the Company to file in this Docket, upon filing of the loan closing notice and upon providing the loan documents to Staff, an application requesting to implement an associated surcharge.

- Directing Staff to calculate the appropriate WIFA surcharge and prepare and file a recommended order for Commission consideration within 60 days of the filing of a surcharge implementation request by the Company and to calculate the surcharge based on the actual loan debt service (interest and principal) payments and using the current customer count at the time of the loan closing to provide the cash flow adopted in this proceeding.

- Authorizing the Company to pledge its assets in the State of Arizona pursuant to Arizona Revised Statutes § 40-285 and A.A.C. R18-15-104 in connection with the WIFA loan.

- Authorizing the Company to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

I. INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Jeffrey M. Michlik. I am a Public Utilities Analyst V employed by the Arizona Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as a Public Utilities Analyst V.

A. In my capacity as a Public Utilities Analyst V, I analyze and examine accounting, financial, statistical and other information and prepare reports based on my analyses that present Staff's recommendations to the Commission on utility revenue requirements, rate design and other matters. I also provide expert testimony on these same issues.

Q. Please describe your educational background and professional experience.

A. In 2000, I graduated from Idaho State University, receiving a Bachelor of Business Administration Degree in Accounting and Finance, and I am a Certified Public Accountant with the Arizona State Board of Accountancy. I have attended the National Association of Regulatory Utility Commissioners' ("NARUC") Utility Rate School, which presents general regulatory and business issues.

I joined the Commission as a Public Utilities Analyst in May of 2006. Prior to employment with the Commission, I worked four years for the Arizona Office of the Auditor General as a Staff Auditor, and one year in public accounting as a Senior Auditor.

Q. What is the scope of your testimony in this case?

A. I am presenting Staff's analysis and recommendations regarding Clear Springs Utility Company, Inc.'s ("Clear Springs" or "Company") Water and Wastewater Division

applications for a permanent rate increase and its request for authorization to incur long-term debt. I am presenting testimony and schedules addressing rate base, operating revenues and expenses, revenue requirement, rate design, and financial analysis. Ms. Dorothy Hains is presenting Staff's engineering analysis and related recommendations.

Q. What is the basis of your testimony in this case?

A. I performed a regulatory audit of the Company's application and records. The regulatory audit consisted of examining and testing financial information, accounting records, and other supporting documentation and verifying that the accounting principles applied were in accordance with the Commission-adopted NARUC Uniform System of Accounts.

Q. How is your testimony organized?

A. My testimony is presented in ten sections. Section I is this introduction. Section II provides a background of the Company. Section III is a summary of consumer service issues. Section IV presents compliance status. Section V is a summary of the Company's filing and Staff's rate base and operating income adjustments. Section VI presents Staff's rate base recommendations. Section VII presents Staff's operating income recommendations. Section VIII presents Staff's revenue requirement. Section IX presents Staff's rate design, and Section X presents Staff's financing recommendations.

II. BACKGROUND

Q. Please review the background of this application.

A. Clear Springs is a certificated Arizona public service corporation that provided water and wastewater services during 2010 in Cochise County, Arizona. The average number of customers per the Company during the test year was 565 for the water division and 386 for the wastewater division.

On November 3, 2011, the Company filed an application for a permanent rate increase, with a test year ending December 31, 2010. Also on November 3, 2011, the Company filed a financing application requesting authorization to incur long-term debt in order to make system improvements.

III. CONSUMER SERVICES

Q. Please provide a brief history of customer complaints received by the Commission regarding the Company. Additionally, please discuss customer responses to the Company's proposed rate increase.

A. A review of the Commission's Consumer Services database for the Company from January 1, 2009, to June 1, 2012, revealed the following:

2012 – One complaint (defective equipment), 140 opinions all opposed to the rate case, and zero inquiries.

2011 – Two complaints (one billing and one new service), zero opinions, and zero inquiries.

2010 – Four complaints (quality of service), zero opinions, and zero inquiries.

2009 – One complaint (billing), zero opinions, and zero inquiries.

All complaints have been resolved and closed.

IV. COMPLIANCE

Q. Please provide a summary of the compliance status of the Company.

A. A check of the Commission's Compliance database indicates that there are currently no delinquencies for the Company.

V. SUMMARY OF FILING, RECOMMENDATIONS, AND ADJUSTMENTS

Q. Please summarize the Company's proposals in this filing, for each of its divisions.

A. The Company proposed the following for each of its divisions.

Water Division

The Company-proposed rates, as filed, produce total operating revenue of $266,673, an increase of $98,423, or 58.50 percent, over test year revenue of $168,250 to provide a $333,861 operating income and a 35.00 percent rate of return on its proposed $96,746 fair value rate base ("FVRB") which is its original cost rate base ("OCRB").

Wastewater Division

The Company does not request an increase or decrease in total operating revenue for its wastewater division; however, it does propose to change the rate design. Therefore, the Company-proposed rates, as filed, produce the $47,802 test year total operating revenue and a zero dollar and percent increase to provide a $9,556 operating income. The Company proposes a FVRB of negative $13,244, which is its OCRB. The Company presents its rate of return on rate base as negative 72.15 percent.

Q. Please summarize Staff's recommendations.

A. Staff recommends the following for each of the Company's divisions.

Water Division

Staff recommends rates that produce total operating revenue of $216,023, an increase of $47,773, or 28.39 percent over the Staff-adjusted test year revenue of $168,250, to provide a $4,432 operating income and an 11.50 percent return on the $38,541 Staff-adjusted FVRB and OCRB.

Wastewater Division

Staff agrees with the Company's proposal not to increase or decrease total operating revenue from the $47,802 test year amount for the wastewater division. Therefore, the Staff-recommended rates produce the $47,802 test year total operating revenue and a zero dollar and percent increase to provide an $8,273 operating income. Staff recommends an OCRB of negative $13,016 which is its FVRB. Calculating a rate of return on the negative rate base is not meaningful. Accordingly, Staff's recommended $47,802 revenue requirement is based on a cash flow analysis.

Q. What test year did the Company use in this filing?

A. The Company's rate filing is based on the twelve months ended December 31, 2010 ("test year").

Q. Please summarize the rate base adjustments addressed in your testimony.

A. My testimony addresses the following issues for the water and wastewater divisions:

Water Division

Post Test Year Plant – This adjustment increases plant by $11,849 and accumulated depreciation by $741 to include post test year capital improvements made to Well Site 5.

Plant Not Used and Useful - This adjustment decreases plant by $34,151 and accumulated depreciation by $10,212 to remove plant that was deemed not used and useful during the test year.

Customer Deposits – This adjustment deducts customer deposits of $46,540 in the calculation of rate base.

Cash Working Capital – This adjustment decreases the working capital allowance, calculated using the formula method, by $317 to reflect Staff's adjustments to operating expenses.

Wastewater Division

Reclassification of Plant- This adjustment reclassifies $51,208 from account no. 355 power generation equipment to account no. 371 pumping equipment.

Plant Not Used and Useful - This adjustment decreases plant by $495 and accumulated depreciation by $37 to remove plant that was deemed not used and useful during the test year.

Cash Working Capital – This adjustment increases the working capital allowance, calculated using the formula method, by $686 to reflect Staff's adjustments to operating expenses.

Q. Please summarize the operating revenue and expense adjustments addressed in your testimony.

A. My testimony addresses the following issues:

Water Division

Water Testing Expense – This adjustment decreases water testing expense by $2,535 to reflect Staff's recommended amount.

Depreciation Expense – This adjustment decreases depreciation expense by $9,367 to reflect application of Staff's recommended depreciation rates to Staff's depreciable plant balances.

Property Tax Expense – This adjustment decreases test year property taxes by $65 to reflect application of the modified version of the Arizona Department of Revenue's ("ADOR") property tax methodology which the Commission has consistently adopted.

Income Tax Expense – This adjustment decreases test year income tax expense by $3,319 to reflect application of statutory state and federal income tax rates to Staff-adjusted taxable income.

Wastewater Division

Water Testing Expense – This adjustment increases water testing expense by $2,751 to reflect Staff's recommended amount.

Depreciation Expense – This adjustment decreases depreciation expense by $1,128 to reflect application of Staff's recommended depreciation rates to Staff's depreciable plant balances.

Income Tax Expense – This adjustment decreases test year income tax expense by $340 to reflect application of statutory state and federal income tax rates to Staff-adjusted taxable income.

VI. RATE BASE ADJUSTMENTS

Fair Value Rate Base

Q. Did the Company prepare a schedule showing the elements of Reconstruction Cost New Rate Base?

A. No, the Company did not. The Company's filing treats the OCRB the same as the FVRB for both the water and wastewater divisions.

Rate Base Summary – Water Division

Q. Please summarize Staff's adjustments to the Company's rate base shown in Schedules JMM-W3 and JMM-W4.

A. Staff's adjustments to the Company's rate base resulted in a net decrease of $58,205 from $96,746 to $38,541. Staff's recommendations result from the rate base adjustments described below.

Rate Base Adjustment No. 1 – Post Test Year Plant

Q. Did the Company request post test year capital improvements to be included in rate base?

A. No.

Q. Is Staff recommending inclusion of any post test year plant?

A. Yes. Staff has included capital improvements made to Well Site 5 in December of 2011. (See Engineering Report).

Q. What is Staff's recommendation?

A. Staff recommends the inclusion of $11,849 in plant, and associated accumulated depreciation of $741, as shown in Schedule JMM-W5.

Rate Base Adjustment No. 2 – Plant Not Used and Useful

Q. Did Staff identify plant that was not used and useful?

A. Yes. Staff's engineer identified $34,151 in plant that was not serving customers during the test year. Staff also made an adjustment to the associated accumulated depreciation, as shown in Schedule JMM-W6.

Q. What is Staff's recommendation?

A. Staff recommends decreasing plant in service by $34,151 to remove all plant from rate base that was not used and useful, and to also remove the associated depreciation of $10,212, as shown in Schedule JMM-W6.

Rate Base Adjustment No. 3 – Not Used

Q. Is Staff making a rate base adjustment No. 3?

A. No, this was an inadvertent adjustment.

Rate Base Adjustment No. 4 – Customer Deposits

Q. Is the Company proposing to include customer deposits in its rate base calculation?

A. No.

Q. Are customer deposits normally a deduction in the calculation of rate base?

A. Yes. Customer deposits are a deduction in the calculation of rate base.

Q. Why are customer deposits deducted from rate base?

A. Customer deposits are deducted from rate base in order to recognize cost-free capital provided by non-investors.

Q. What were the customer deposit balances at the end of the test year?

A. The customer deposit balances at the end of the test year were $46,540.

Q. Is the end-of-test year balance the preferred customer deposit balance to be deducted from rate base?

A. Generally, a 13-month average balance is preferable. Staff is using the test year end balance provisionally until the 13-month data can be obtained from the Company.[1]

Q. What is Staff's recommendation?

A. Staff recommends deducting customer deposits from rate base, as shown in Schedule JMM-W8.

Rate Base Adjustment No. 5 – Cash Working Capital

Q. What method did the Company use to support its allowance for Cash Working Capital?

A. The Company used the formula method that represents one twenty-fourth of purchased power and purchased water and one-eighth of operating and maintenance expenses (excludes depreciation and taxes).

Q. Does the Commission typically recognize use of the formula method to provide for a cash working capital allowance for Class C or larger utilities?

A. No. Normally, the Commission requires Class C utilities to perform a lead-lag study to support its request for a cash working capital allowance. In this case, Staff recommends use of the formula method since Staff's recommended revenue requirements for the water

[1] The provision for interest expense on customer deposits is also provisional pending the 13-month average data.

and wastewater divisions on a stand-alone basis are less than $250,000, the threshold for a Class C utility.

Q. Is Staff recommending the same cash working capital allowance as requested by the Company?

A. No. Since Staff's operating and maintenance expenses differ from those proposed by the Company, Staff's cash working capital allowance is $317 less than the Company's.

Q. What is Staff's recommendation?

A. Staff recommends decreasing the Company's cash working capital by $317, as shown in Schedule JMM-W9.

Rate Base Summary – Wastewater Division

Q. Please summarize Staff's adjustments to the Company's rate base shown in Schedules JMM-WW3 and JMM-WW4.

A. Staff's adjustments to the Company's rate base resulted in a net increase of $228 from negative $13,244 to negative $13,016.

Rate Base Adjustment No. 1 – Reclassification of Plant

Q. Why is Staff recommending this adjustment?

A. Staff identified power generation equipment (account no. 355) that should be reclassified as pumping equipment (account no. 371).

Q. What is Staff's recommendation?

A. Staff recommends reclassifying $51,208 in power generation equipment (account no. 355) to pumping equipment (account no. 371), as shown in Schedule JMM-WW5.

Rate Base Adjustment No. 2 – Plant Not Used and Useful

Q. Did Staff identify plant that was not used and useful?

A. Yes. Staff's engineer identified $495 in plant that was not serving customers during the test year. Staff also made an adjustment to the associated accumulated depreciation, as shown in Schedule JMM-WW6.

Q. What is Staff's recommendation?

A. Staff recommends decreasing plant in service by $495 to remove all plant from rate base that was not used and useful, and to also remove the associated depreciation of $37, as shown in Schedule JMM-W6.

Rate Base Adjustment No. 3 – Cash Working Capital

Q. What method did the Company use to support its allowance for Cash Working Capital?

A. The Company used the formula method that represents one twenty-fourth of purchased power and purchased water and one-eighth of operating and maintenance expenses (excludes depreciation and taxes).

Q. Does the Commission typically recognize use of the formula method to provide for a cash working capital allowance for Class C or larger utilities?

A. No. Normally, the Commission requires Class C utilities to perform a lead-lag study to support its request for a cash working capital allowance. In this case, Staff recommends use of the formula method since Staff's recommended revenue requirements for the water and wastewater divisions on a stand-alone basis are less than $250,000, the threshold for a Class C utility.

Q. Is Staff recommending the same cash working capital allowance as requested by the Company?

A. No. Since Staff's operating and maintenance expenses differ from those proposed by the Company, Staff's cash working capital allowance is $686 greater than the Company's.

Q. What is Staff's recommendation?

A. Staff recommends increasing cash working capital by $686 for the Company, as shown in Schedule JMM-WW9.[2]

VII. OPERATING INCOME ADJUSTMENTS

Operating Income Summary – Water Division

Q. What are the results of Staff's analysis of test year revenues, expenses, and operating income?

A. As shown in Schedules JMM-W10 and JMM-W11, Staff's analysis resulted in test year revenues of $168,250, expenses of $200,874 and operating income of negative $32,624.

Operating Income Adjustment No. 1 – Water Testing Expense

Q. What did the Company propose for water testing expense?

A. The Company proposed $7,172 for testing expense.

Q. What adjustment did Staff make?

A. Staff adjusted the water testing expense downward by $2,535 from $7,172 to $4,637, to reflect Staff's recommended amount.

[2] Since Staff's rate base is negative, inclusion of a cash working capital provision in rate base has no effect on Staff's recommended revenue requirement.

Q. What is Staff's recommendation?

A. Staff recommends decreasing water testing expense by $2,535, as shown in Schedule JMM-W12.

Operating Income Adjustment No. 2 – Depreciation Expense

Q. How did Staff calculate depreciation expense?

A. Staff recomputed depreciation expense on a going-forward basis by applying Staff's recommended depreciation rates by account to Staff's recommended plant-in-service balances and reducing that result by the amortization of contributions-in-aid-of-construction ("CIAC"), as shown in Schedule JMM-W13.

Q. Did Staff's calculation for depreciation expense agree with the Company's proposed depreciation expense?

A. No. Since Staff's plant values differ from the Company's plant values, Staff's depreciation is different.

Q. What is Staff's recommendation?

A. Staff recommends reducing depreciation expense by $9,367, from $28,545 to $19,178, as shown in Schedule JMM-W13.

Operating Income Adjustment No. 3 – Property Tax Expense

Q. What method has the Commission typically adopted to determine property tax expense for ratemaking purposes for Class C and above water utilities?

A. The Commission's practice in recent years has been to use a modified ADOR methodology for water and wastewater utilities.

Q. Did Staff calculate property taxes using the modified ADOR method?

A. Yes. As shown in Schedule JMM-W14, Staff calculated property tax expense using the modified ADOR method for both test year and Staff-recommended revenues. Since the modified ADOR method is revenue dependent, the property tax is different for test year and recommended revenues. Staff has included a factor for property taxes in the gross revenue conversion factor that automatically adjusts the revenue requirement for changes in revenue in the same way that income taxes are adjusted for changes in operating income.

Q. What does Staff recommend for test year property tax expense?

A. Staff recommends decreasing test year property tax expense by $65, from $9,698 to $9,633, as shown in Schedule JMM-W14.

Operating Income Adjustment No. 4 – Income Tax Expense

Q. Did Staff make an adjustment to Income Tax Expense?

A. Yes, based on Staff's recommended revenue requirement.

Q. How did Staff calculate income tax expense for the Company?

A. Staff applied the statutory state and federal income tax rates to Staff's taxable income. Income tax expenses for the test year and recommended revenues are shown in Schedule JMM-W2.

Q. What adjustment does Staff recommend for test year income tax expense for the Company?

A. Staff recommends increasing test year income tax expense by $3,319, as shown in Schedule JMM-W15.

Operating Income Summary – Wastewater Division

Q. What are the results of Staff's analysis of test year revenues, expenses, and operating income?

A. As shown on Schedules JMM-WW8 and JMM-WW9, Staff's analysis resulted in test year revenues of $47,802, expenses of $39,529 and operating income of $8,273.

Operating Income Adjustment No. 1 – Wastewater Testing Expense

Q. What did the Company propose for wastewater testing expense?

A. The Company proposed $0 for testing expense.

Q. What adjustment did Staff make?

A. Staff adjusted the wastewater testing expense upward by $2,751 from $0 to $2,751, to reflect Staff's recommended amount.

Q. What is Staff's recommendation?

A. Staff recommends increasing wastewater testing expense by $2,751, as shown in Schedule JMM-WW10.

Operating Income Adjustment No. 2 – Depreciation Expense

Q. How did Staff calculate depreciation expense?

A. Staff recomputed depreciation expense on a going-forward basis by applying Staff's recommended depreciation rates by account to Staff's recommended plant-in-service balances and reducing that result by the amortization of CIAC, as shown in Schedule JMM-WW11.

Q. Did Staff's calculation for depreciation expense agree with the Company's proposed depreciation expense?

A. No. Since Staff's plant values differ from the Company's plant values, Staff's depreciation is different. In addition, Staff amortized the remaining net CIAC over three years. Although CIAC is normally amortized over the life of the plant that it funded using a composite depreciation rate, in this case, Staff used an alternate method since the normal method would have resulted in a negative depreciation expense due to a relatively large gross CIAC to net CIAC ratio.

Q. What is Staff's recommendation?

A. Staff recommends reducing depreciation expense by $1,128, from $1,128 to $0, as shown in Schedule JMM-WW11.

Operating Income Adjustment No. 3 – Property Tax Expense.

Q. Did Staff use the modified ADOR methodology, discussed above regarding the water division, to calculated property tax expense for the wastewater division?

A. Yes. This method is used by ADOR for both water and wastewater utilities, and it is appropriate because it recognizes that property tax expense is revenue dependent. The Commission's practice in recent years has been to use a modified ADOR methodology for water and wastewater utilities.

Q. Does Staff recommend an adjustment for test year property tax expense?

A. No. Staff's calculation verifies the Company's proposed test year property tax expense. Since Staff is not recommending and the Company is not proposing an increase or decrease in revenues, the property tax expense should remain at the test year level. Staff's calculation of property tax expense is shown in column A of Schedule JMM-WW12.

Operating Income Adjustment No. 4 – Income Tax Expense

Q. Did Staff make an adjustment to Income Tax Expense?

A. Yes, based on Staff's recommended revenue requirement.

Q. How did Staff calculate income tax expense for the Company?

A. Staff applied the statutory state and federal income tax rates to Staff's taxable income. Income tax expenses for the test year and recommended revenues are shown in Schedule JMM-WW2.

Q. What adjustment does Staff recommend for test year income tax expense for the Company?

A. Staff recommends decreasing test year income tax expense by $340, as shown in Schedule JMM-WW13.

VIII. REVENUE REQUIREMENT

Q. Did the Company utilize a rate of return on rate base, operating margin or cash flow methodology to determine its revenue requirement?

A. The Company utilized a rate of return methodology for its water division, and chose not to ask for a revenue increase for its wastewater division.

Q. What is the customary method for determining a utility revenue requirement?

A. Under the traditional regulatory framework, the required operating income for an investor-owned utility is determined by multiplying rate base by rate of return. Typically, a utility is entitled to a reasonable return on the value of its property and no more. Since a utility incurs expenses in the provision of service, these expenses, when added to the operating income, provide the revenue requirement. Thus, the revenue requirement can be

expressed mathematically as: Revenue Requirement = Operating and Maintenance expenses + Depreciation expense + Taxes + Operating Income.

Q. Did Staff use the rate base/rate of return method for determining the operating income and revenue requirement for the Company's water division in this case?

A. Yes. Staff applied a rate of return (11.5 percent), which is within the range typically used for small water utilities (class D and E), to the rate base to determine the operating income which, in turn, was used to calculate the revenue requirement.

Q. How did Staff determine the revenue requirement for the Company's wastewater division in this case?

A. Staff first applied the rate base/rate of return method. However, since Staff calculated a negative rate base for the Company, the rate base/rate of return method produces a negative operating income that is neither useful nor meaningful for calculating the revenue requirement. It is not uncommon, in the circumstances of small utilities with too little or no rate base, for the rate base/rate of return methodology to result in an operating income that is not meaningful or to generate a cash flow insufficient to provide for a reasonable level of contingencies. Owners of these small utilities often have no known sources of capital to address contingencies. Therefore, for the health and safety of the ratepayer and the financial viability of the company, it is reasonable to provide the utility with additional revenues to provide sufficient cash flow for contingencies. Therefore, Staff used a cash flow analysis to determine the revenue requirement for the Company's wastewater division.

Q. What is Staff's recommended revenue requirement for the water division?

A. Staff recommends a revenue requirement of $216,023, a $47,773 (28.39 percent) increase over adjusted test year revenue of $168,250, to provide a $4,432 operating income and an 11.50 percent return on the $38,541 Staff-adjusted FVRB and OCRB. Staff's recommended revenue would provide $10,004 of positive cash flow with existing loans; however, as discussed below, the Company will need another source of revenue to provide debt service coverage on its proposed loan. (See Schedule JMM-W16)

Q. What is Staff's recommended revenue requirement for the wastewater division?

A. Staff recommends a revenue requirement of $47,802, a $0 (0.00 percent) increase over adjusted test year revenue of $47,802. Staff's recommended revenue would result in operating income of $8,273 and positive cash flow of $8,190 (see Schedule JMM-WW14).

IX. RATE DESIGN

Q. Did Staff prepare a summary of the Company's present rates, proposed rates, and Staff's recommended rates for both the water and wastewater divisions?

A. Yes. See Schedules JMM-W19 and JMM-WW15, respectively.

Q. Did Staff prepare a typical bill analysis for a 5/8" x 3/4" residential customer water customer and residential wastewater customer?

A. Yes. See Schedules JMM-W20 and JMM-WW16, respectively.

Q. What does Staff recommend for other service charges?

A. Staff's recommended other service charges for the water and wastewater divisions are presented in Schedules JMM-W19 and JMM-WW15, respectively, and reflect Staff's experience of what are reasonable and customary charges. Staff's recommended service

charges agree with the Company's proposed service charges except for the Late Payment Fee. The Company proposes a 2 percent monthly Late Payment Fee and Staff recommends a 1.5 percent monthly Late Payment Fee.

Q. Does Staff have any comment regarding the Company's proposal to eliminate the Establishment (after-hours) charge and initiate an After Hours Service Charge?

A. Yes. Staff recommends adoption of the Company's proposed after-hours service charge when it is made at the customer's request. Such a tariff compensates the utility for additional expenses incurred from providing after-hours service. Staff concludes that establishing a separate after-hours tariff that is applicable for any utility service provided outside of regular business hours at the customer's request is preferable to having after-hours tariffs for each specific activity. The after-hours fee of $25.00 would apply in addition to the applicable regular-hours charge for the specific service if the customer requests that the service be performed outside of normal working hours.

Q. What is Staff's recommendation?

A. Staff recommends approval of its rates and charges as shown in Schedules JMM-W19 and JMM-WW15, respectively, for the water division and the wastewater division.

X. FINANCING

Introduction

Q. Please give a brief introduction to the Company's proposed financing plan.

A. On November 31, 2011, the Company filed a financing application with the Commission, requesting Commission approval to borrow $511,000 from the Water Infrastructure Finance Authority of Arizona ("WIFA"). On May 1, 2012, the Company provided Staff

with a revised scope of work for the capital improvement projects related to the financing resulting in a small reduction in the cost estimate to $510,678.

Q. What is the purpose of the loan?

A. The Company stated that it will use the proceeds of the loan to upgrade plant items at Well Sites 3, 7 and 18, and to purchase a generator and replace broken gate valves in its water systems.

Q. Did Staff conduct an engineering analysis of the proposed financing?

A. Yes. Please refer to the testimony of Dorothy Hains and the associated engineering report for details of Staff's engineering analysis. In brief, the engineering analysis concludes that the proposed capital improvements at Well Sites 3, 7 and 18 and the valve replacements and other distribution system improvements are appropriate and the cost estimates are reasonable. However, Table 5 of the engineering report adjusts the costs for other items in the Company's capital improvement plan resulting in a total Staff-recommended cost of $426,249. Staff makes no "used and useful" determination of the proposed projects and no particular treatment should be inferred for rate making or rate base purposes in the future.

Q. What amount of financing does Staff recommend for the proposed capital improvements?

A. Staff recommends $426,249 of financing for the Company's proposed capital improvements.

Q. Did Staff conduct a financial analysis of the Company's ability to support debt service on a $426,249 loan?

A. Yes. Staff's financial analysis is shown in Schedules JMM-W16 and JMM-W17. Schedule JMM-W17, Column [C], presents pro forma financial information reflecting Staff's audit results and recommended rates with existing loans for both divisions.[3] Schedule JMM-W17, Column [D], presents pro forma financial information that modifies Column [C] to reflect the issuance of a $426,249, 20-year amortizing loan at 3.675 percent per annum with no surcharge, and Column [E] modifies Column [D] to reflect $42,443 of infrastructure surcharge revenue. Schedule JMM-W17 also presents the debt service coverage ratio ("DSC") for each scenario.

DSC represents the number of times internally-generated cash (i.e., earnings before interest, income tax, depreciation and amortization expenses) covers required principle and interest payments on short-term and long-term debt. A DSC greater than 1.0 means operating cash flow is sufficient to cover debt obligations.

The scenario for Schedule JMM-W17, Column [D] shows that a pro forma 0.83 DSC results from Staff's recommended permanent rates (no surcharge) revenue requirement and a fully drawn $426,249, 20-year amortizing loan at 3.675 percent annual interest with no surcharge. The pro forma DSC shows that, after issuing the anticipated new debt, the Company ***does not have adequate*** cash flows to meet all obligations. A cash flow analysis of this scenario[4] is presented in Schedule JMM-W16 under the title "Without Surcharge and with New Loan," and it confirms the DSC results showing a negative

[3] Since the Company, not either division separately, is obligated for the debt obligations, the combined DSC and cash flows are used for the analysis.

[4] However, unlike the DSC calculation, the cash flow analysis assumes that the debt service obligations are entirely attributed to the Water Division and that all infrastructure surcharge revenues are collected in the Water Division since the anticipated capital improvements are for the Water Division.

$25,102 cash flow for the Water Division. Therefore, the Company will need a source of funds other than permanent rates to meet all obligations associated with the anticipated new loan.

The scenario for Schedule JMM-W17, Column [E], shows that a pro forma 1.84 DSC results from Staff's recommended permanent rates revenue requirement augmented with $42,443 of infrastructure surcharge revenue. A cash flow analysis of this scenario is presented in Schedule JMM-W16 under the title "With Surcharge and with New Loan," and it confirms the DSC results showing $10,000 of positive cash flow for the Water Division.[5] Thus, $42,443 of infrastructure surcharge revenue provides cash flows to meet all obligations including the anticipated new debt and $10,000 for contingencies in the Water Division.

Q. How does the infrastructure surcharge work?

A. A surcharge mechanism establishes the methodology for calculating the surcharge amounts. Once the Company has closed on the WIFA loan, it would submit an application in this Docket requesting implementation of the infrastructure surcharge. Staff would then calculate the surcharge based on the authorized mechanism, and prepare and file a recommended order for Commission consideration.

Q. Has Staff calculated an estimated surcharge and also provided an estimated typical bill analysis?

A. Yes. The estimated infrastructure surcharge for each meter size is presented in Schedule JMM-W18 and the typical bill analysis is presented in Schedule JMM-W21. The estimated monthly surcharge for a 5/8 x 3/4-inch meter is $4.99.

[5] Since the Wastewater Division generates $8,190 of positive cash flow, the Company as a whole will have positive cash flow when the Water Division has positive cash flow.

Q. What is Staff's conclusion regarding the Company's financing?

A. Staff concludes that issuance of debt financing not to exceed $426,249 in the form of an amortizing loan of approximately 20 years for the purpose of making capital improvements at Well Sites 3, 7, and 18 and replacing plant items in the distribution system as recommended in Staff's Engineering Report is within the Company's corporate powers, is compatible with the public interest, will not impair its ability to provide services and is consistent with sound financial practices provided the rates authorized in this proceeding provide a 1.84 or greater DSC.[6] The remainder of the Company's request for borrowing authorization should be denied.

Q. What are Staff's recommendations?

A. Staff recommends:

Recommendations (not related to the Financing):

- Approval of Staff's rates and charges as shown in Schedules JMM-W19 and JMM-WW15. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax, per Arizona Administrative Code ("A.A.C.") Rule 14-2-409(D)(5).

- Directing the Company to docket with the Commission a schedule of its approved rates and charges within 30 days after the date the Decision in this matter is issued.

- Directing the Company to file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least five Best Management Practices ("BMPs"), in the form of tariffs that substantially conform to the templates created by Staff, for Commission review and consideration. The templates created by Staff are available on the Commission's website at http://www.azcc.gov/Divisions/Utilities/forms.asp (see Engineering Report).

- Directing the Company to submit a detailed water loss reduction plan with Docket Control, as a compliance item in this docket, before any rate increase adopted in this matter becomes effective (see Engineering Report).

[6] Staff generally considers 1.25 as the minimum DSC for a WIFA loan due to debt service reserve funding requirements. In this case, a higher DSC is required to provide the Company with adequate cash flow.

- Directing the Company to monitor the water system closely and take action to ensure the water loss is 10 percent or less by December 2014. If the water loss continues to exceed 10 percent, calculated on an annual basis, the Company shall, within 270 days of a decision in this case, filed a detailed plan to reduce water loss to 10 percent or less, or prepare a report containing a detailed analysis and explanation demonstrating why a water loss reduction to 10 percent or less is not feasible or cost effective (see Engineering Report).

- Directing the Company to file water loss progress reports semiannually with Docket Control, as a compliance item in this docket, and for the first water loss progress report to be filed by June 30, 2013, and for Staff to determine that any future rate case filed by the Company is insufficient if these items are not properly submitted (see Engineering Report).

- Since the Company failed to comply with Commission Decision No. 68443 which ordered the Company to resolve the water storage deficiencies of Public Water System ("PWS") #02-048 and PWS #02-050 prior to filing its next rate application, directing the Company correct the water storage deficiencies of PWS #02-048 and PWS #02-050 before any rate increase adopted in this matter becomes effective (see Engineering Report).

- Directing the Company to immediately repair the leaks that Staff observed during its field inspection and to file, within 15 days of the effective date of the Commission's order in this matter, documentation showing that it has complied (see Engineering Report).

- Directing the Company to file with Docket Control, as a compliance item in this docket, an affidavit indicating that the water testing referenced in Table 4B has been completed and that the Company is delivering water to customers served by its non-community systems that complies with applicable water quality standards and to file its affidavit on a quarterly basis with the first affidavit due for the first quarter of 2013, by April 30, 2013, and to continue filing such quarterly reports until the non-community water systems become community water systems (see Engineering Report).

- Authorizing the depreciation rates by individual NARUC account, as presented in Table B of Staff's Engineering Report.

- Directing the Company, as a compliance item in this case, to notify its customers of the authorized rates and charges approved in this proceeding, and their effective date, in a form acceptable to Staff, by means of an insert in its next regularly-scheduled billing and to file copies with Docket Control within 10 days of the date notice is sent to customers.

Recommendations pertaining to the Financing Application:

- Granting the Company authorization to incur an 18- to 22-year amortizing loan in an amount not to exceed $426,249 pursuant to a loan agreement with WIFA and at an interest rate not to exceed that available from WIFA for the purpose of making capital

improvements at Well Sites 3, 7, and 18 and replacing plant items in the distribution system as recommended in Staff's Engineering Report, subject to the condition that the Company is authorized sufficient revenue in this rate case via permanent rates and an infrastructure surcharge to meet its debt service and the associated loan covenants.

- Establishing an expiration date for any unused authorization to incur debt granted in this proceeding of December 31, 2014.

- Directing the Company to file as a compliance item in this Docket, within 30 days of the execution of any financing transaction authorized herein, a notice confirming that such execution has occurred and a certification by an authorized Company representative that the terms of the financing fully comply with the authorizations granted.

- Directing the Company to provide to the Staff's Compliance Section, a copy of any WIFA loan documents executed pursuant to the authorizations granted herein, within 30 days of the execution of the loan, and also to file a letter in Docket Control verifying that such documents have been provided.

- Granting the Company authorization to charge an infrastructure surcharge to become effective at a date and in a manner as subsequently authorized by the Commission.

- Directing the Company to file in this Docket, upon filing of the loan closing notice and upon providing the loan documents to Staff, an application requesting to implement an associated surcharge.

- Directing Staff to calculate the appropriate WIFA surcharge and prepare and file a recommended order for Commission consideration within 60 days of the filing of a surcharge implementation request by the Company and to calculate the surcharge based on the actual loan debt service (interest and principal) payments and using the current customer count at the time of the loan closing to provide the cash flow adopted in this proceeding.

- Authorizing the Company to pledge its assets in the State of Arizona pursuant to Arizona Revised Statutes § 40-285 and A.A.C. R18-15-104 in connection with the WIFA loan.

- Authorizing the Company to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Q. Does this conclude your direct testimony?

A. Yes, it does

Clear Springs Utility Company, Inc. - Water Division
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

Direct Testimony of Jeffrey M. Michlik

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Clear Springs Utility Company, Inc. - Water Division **Schedule JMM-W1**
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	$ 96,746	$ 38,541
2	Adjusted Operating Income (Loss)	$ (41,272)	$ (32,624)
3	Current Rate of Return (L2 / L1)	-42.66%	-84.65%
4	Required Rate of Return	35.00%	11.50%
5	Required Operating Income (L4 * L1)	$ 33,861	$ 4,432
6	Operating Income Deficiency (L5 - L2)	$ 75,133	$ 37,056
7	Gross Revenue Conversion Factor	1.3100	1.2892
8	Required Revenue Increase (L7 * L6)	$ 98,423	**$ 47,773**
9	Adjusted Test Year Revenue	$ 168,250	$ 168,250
10	Proposed Annual Revenue	$ 266,673	$ 216,023
11	Required Increase in Revenue (%)	58.50%	28.39%

References:
Column (A): Company Schedule A-1
Column (B): Staff Schedules JMM-W3 and JMM-W10

Clear Springs Utility Company, Inc. - Water Division
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

Schedule JMM-W2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	Calculation of Gross Revenue Conversion Factor:				
1	Revenue	100.0000%			
2	Uncollecible Factor	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 18)	22.4319%			
5	Subtotal (L3 - L4)	77.5681%			
6	**Revenue Conversion Factor (L1 / L5)**	1.289190			
	Calculation of Effective Tax Rate:				
7	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
8	Arizona State Income Tax Rate	6.9680%			
9	Federal Taxable Income (L7 - L8)	93.0320%			
10	Applicable Federal Income Tax Rate (Line 48)	15.0000%			
11	Effective Federal Income Tax Rate (L9 x L10)	13.9548%			
12	Combined Federal and State Income Tax Rate (L8 +L11)		20.9228%		
	Calculation of Effective Property Tax Factor				
13	Unity	100.0000%			
14	Combined Federal and State Income Tax Rate (L12)	20.9228%			
15	One Minus Combined Income Tax Rate (L13-L14)	79.0772%			
16	Property Tax Factor (JMM-W14, L27)	1.9084%			
17	*Effective Property Tax Factor* (L15*L16)		1.5091%		
18	Combined Federal and State Income Tax and Property Tax Rate (L12+L17)			22.4319%	
19	Required Operating Income (Schedule JMM-W1, Line 5)	$ 4,432			
20	AdjustedTest Year Operating Income (Loss) (JMM-W10, L35)	(32,624)			
21	Required Increase in Operating Income (L19 - L20)		$ 37,056		
22	Income Taxes on Recommended Revenue (Col. [C], L47)	$ (222)			
23	Income Taxes on Test Year Revenue (Col. [A], L47)	(10,027)			
24	Required Increase in Revenue to Provide for Income Taxes (L22 - L23)		9,805		
25	Recommended Revenue Requirement (Schedule JMM-W1, Line 10)	$ 216,023			
26	Uncollectible Rate	0.0000%			
27	Uncolllectible Expense on Recommended Revenue (L25*L26)	$ -			
28	Adjusted Test Year Uncollectible Expense	$ -			
29	Required Increase in Revenue to Provide for Uncollectible Exp. (L27-L28)		-		
30	Property Tax with Recommended Revenue (Schedule JMM-W14, L21)	$ 10,544			
31	Property Tax on Test Year Revenue (Schedule JMM-W14, Line 17)	9,633			
32	*Increase in Property Tax Due to Increase in Revenue* (L30-31)		912		
33	Total Required Increase in Revenue (L21 + L24 + L29 + L32)		$ 47,773		

	Calculation of Income Tax:	Test Year		Staff Recommended	Staff W/Surcharge
34	Revenue (Schedule JMM-W1, Col. [B], Line 9 & Sch. JMM-W1, Col. [B] Line 10)	$ 168,250	$ 47,773	$ 216,023	$ 258,465
35	Operating Expenses Excluding Income Taxes	$ 210,901		$ 211,813	$ 212,623
36	Synchronized Interest (L51)	$ 5,271		$ 5,271	$ 20,689
37	Arizona Taxable Income (L34 - L35 - L36)	$ (47,922)		$ (1,061)	$ 25,153
38	Arizona State Income Tax Rate	6.9680%		6.9680%	6.9680%
39	Arizona Income Tax (L37 x L38)	$ (3,339)		$ (74)	$ 1,753
40	Federal Taxable Income (L37- L39)	$ (44,583)		$ (987)	$ 23,401
41	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ (6,687)		$ (148)	$ 3,510
42	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	$ -		$ -	$ -
43	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ -		$ -	$ -
44	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ -		$ -	$ -
45	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ -		$ -	$ -
46	Total Federal Income Tax	$ (6,687)		$ (148)	$ 3,510
47	Combined Federal and State Income Tax (L39 + L46)	$ (10,027)		$ (222)	$ 5,263

48 Applicable Federal Income Tax Rate [Col. [C], L46 - Col. [A], L46] / [Col. [C], L40 - Col. [A], L40] 15.0000%

$ 5,271

Clear Springs Utility Company, Inc. - Water Division **Schedule JMM-W3**
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 1,102,085	$ (22,301)	$ 1,079,784
2	Less: Accumulated Depreciation	909,719	(10,953)	898,766
3	Net Plant in Service	$ 192,366	$ (11,349)	$ 181,017
	LESS:			
4	Contributions in Aid of Construction (CIAC)	$ 265,728	$ -	$ 265,728
5	Less: Accumulated Amortization	229,063	-	$ 229,063
6	Net CIAC	36,665	-	$ 36,665
7	Advances in Aid of Construction (AIAC)	78,613	-	78,613
8	Customer Deposits	-	46,540	46,540
9	Deferred Income Tax Credits	-	-	-
	ADD:			
10	Working Capital Allowance	19,658	(317)	19,341
11	Defered Regulatory Assets	-	-	-
12	**Original Cost Rate Base**	$ 96,746	$ (58,205)	$ 38,541

References:
Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Clear Springs Utility Company, Inc. - Water Division
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

Schedule JMM-W4

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.		[A] COMPANY AS FILED	[B] ADJ #1 Post Test Year Plant Adjustment Ref: Sch JMM-W5	[C] ADJ #2 Plant Not Used And Useful Ref: Sch JMM-W6	[D] ADJ #3 Not Used Ref: Sch JMM-W7	[E] ADJ #4 Customer Deposits Ref: Sch JMM-W8	[F] ADJ #5 Cash Working Capital Ref: Sch JMM-W9	[G] STAFF ADJUSTED
1	*PLANT IN SERVICE:*	DESCRIPTION							
2	301	Organization Cost	$ 1,625	$ -	$ -	$ -	$ -	$ -	$ 1,625
3	302	Franchise Cost	-	-	-	-	-	-	-
4	303	Land and Land Rights	210	-	-	-	-	-	210
5	304	Structures and Improvements	28,565	-	-	-	-	-	28,565
6	305	Collecting and Impounding Res.	-	-	-	-	-	-	-
7	306	Lake River and Other Intakes	-	-	-	-	-	-	-
8	307	Wells and Springs	179,255	-	-	-	-	-	179,255
9	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-
10	309	Supply Mains	-	-	-	-	-	-	-
11	310	Power Generation Equipment	-	-	-	-	-	-	-
12	311	Electric Pumping Equipment	172,837	11,849	(7,561)	-	-	-	177,126
13	320.1	Water Treatment Plants	-	-	-	-	-		-
14	320.2	Solution Chemical Feeders	4,574	-	-	-	-		4,574
15	330	Distribution Reservoirs & Standpipe	16,011	-	-	-	-	-	16,011
16	330.1	Storage Tanks	122,423		(26,590)				95,833
17	330.2	Pressure Tanks	-						-
18	331	Transmission and Distribution Mains	349,433	-	-	-	-	-	349,433
19	333	Services	121,259	-	-	-	-		121,259
20	334	Meters	83,678	-	-	-	-		83,678
21	335	Hydrants	12,214	-	-	-	-	-	12,214
22	336	Backflow Prevention Devices	-	-	-	-	-	-	-
23	339	Other Plant and Miscellaneous Equipment	-	-	-	-	-	-	-
24	340	Office Furniture and Fixtures	3,274	-	-	-	-	-	3,274
25	341	Transportation Equipment	-	-	-	-	-	-	-
26	342	Stores Equipment	-	-	-	-	-	-	-
25	343	Tools and Work Equipment	6,727	-	-	-	-		6,727
26	344	Laboratory Equipment	-	-	-	-	-	-	-
27	345	Power Operated Equipment	-	-	-	-	-	-	-
28	346	Communications Equipment	-	-	-	-	-	-	-
29	347	Miscellaneous Equipment	-	-	-	-	-	-	-
30	348	Other Tangible Plant	-	-	-	-	-	-	-
31	Total Plant in Service - Actual		1,102,085	-	-	-	-	-	1,079,784
32		Post Test-Year Plant	-						-
33	Total Plant in Service		$ 1,102,085	$ 11,849	$ (34,151)	$ -	$ -	$ -	$ 1,079,784
34	Less: Accumulated Depreciation		909,719	(741)	(10,212)	-	-	-	898,766
35			-	-	-		-	-	-
36	Net Plant in Service		$ 192,366	$ 12,590	$ (23,939)	$ -	$ -	$ -	$ 181,017
37									
38	*LESS:*								
39	Contributions in Aid of Construction (CIAC)		$ 265,728	$ -	$ -	$ -	$ -	$ -	$ 265,728
40	Less: Accumulated Amortization		229,063	-	-	-	-	-	229,063
41	Net CIAC (L39 - L40)		36,665	-	-	-	-	-	36,665
42	Advances in Aid of Construction (AIAC)		78,613	-	-	-	-	-	78,613
43	Customer Deposits		-	-	-	-	46,540	-	46,540
44	Deferred Income Taxes		-	-	-	-	-	-	-
45			-						-
46									
47	*ADD:*								
48	Working Capital Allowance		19,658	-	-	-	-	(317)	19,341
49	Defered Regulatory Assets		-	-	-	-	-	-	-
50									
51	**Original Cost Rate Base**		$ 96,746	$ 12,590	$ (23,939)	$ -	$ (46,540)	$ (317)	$ 38,541

Clear Springs Utility Company, Inc. - Water Division
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

Schedule JMM-W5

RATE BASE ADJUSTMENT NO. 1 - POST TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED (Col A + Col B)
1	311	Electric Pumping Equipment	$ 172,837	$ 11,849	$ 184,686
2					
3		Accumulated Depreciation	$ 909,719	$ (741)	$ 908,978

References:
Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Clear Springs Utility Company, Inc. - Water Division
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

Schedule JMM-W6

RATE BASE ADJUSTMENT NO. 2 - PLANT NOT USED AND USEFUL

LINE NO.	ACCT NO.	DESCRIPTION	[A] Plant in Service Per Company	[B] Not Used and Useful Plant	[C] Plant in Service Per Staff (Col A + Col B)
1	311	Pumping Equipment	$ 172,837	$ (7,561)	$ 165,276
2	330.1	Storage Tanks	122,423	(26,590)	95,833
3		Total	$ 295,260	$ (34,151)	$ 261,109
4					
5		Accumulated Depreciation	$ 909,719	$ (10,212)	$ 899,507

References:
Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 3 - NOT USED

Clear Springs Utility Company, Inc. - Water Division
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

Schedule JMM-W8

RATE BASE ADJUSTMENT NO. 4 - CUSTOMER DEPOSITS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Customer Deposits	$ -	$ 46,540	$ 46,540
2				

3 Staff's Calculation

4	GL Account	Amount	Description
5	03-2341	$ 40,253	Meter Deposits
6	03-2351	6,284	Security Deposits
7	03-2353	3	Unclaimed Security Deposits
8	Total	$ 46,540	

References:
Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Clear Springs Utility Company, Inc. - Water Division **Schedule JMM-W9**
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

RATE BASE ADJUSTMENT NO. 5 - CASH WORKING CAPITAL

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Cash Working Capital	$ 19,658	$ (317)	$ 19,341
2				
3	Staff's Calculation of Cash Working Capital			
4	1/24th Purchased Power	$ 1,690		
5	1/8th Operation & Maintenance Expense	17,652		
6	Total Cash Working Capital	$ 19,341		

References:
Column [A]: *Company Application*
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Clear Springs Utility Company, Inc. - Water Division
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

Schedule JMM-W10

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED	[F] SURCHARGE	[G] STAFF RECOMMENDED WITH SURCHARGE
1	*REVENUES:*							
2	Metered Water Sales	$ 165,031	$ -	$ 165,031	$ 47,773	$ 212,804	$ 42,443	$ 255,246
3	Water Sales-Unmetered	-	-	-	-	-		-
4	Other Water Revenue	3,219	-	3,219	-	3,219		3,219
5	Intentionally Left Blank	-	-	-	-	-		-
6	**Total Operating Revenues**	$ 168,250	$ -	$ 168,250	$ 47,773	$ 216,023	$ 42,443	$ 258,465
7								
8	*OPERATING EXPENSES:*							
9	Salaries and Wages	$ -	$ -	$ -	$ -	$ -		$ -
10	Purchased Water	-	-	-	-	-		-
11	*Purchased Power*	40,551	-	40,551	-	40,551		40,551
12	Fuel for Power Production	-	-	-	-	-		-
13	Chemicals	1,811	-	1,811	-	1,811		1,811
14	Repairs and Maintenance	12,168	-	12,168	-	12,168		12,168
15	Office Supplies and Expense	9,437	-	9,437	-	9,437		9,437
16	Outside Services	92,240	-	92,240	-	92,240		92,240
17	Outside Services - Other	-	-	-	-	-		-
18	Outside Services - Legal	-	-	-	-	-		-
19	Water Testing	7,172	(2,535)	4,637	-	4,637		4,637
20	Rents	-	-	-	-	-		-
21	Transportation Expenses	6,938	-	6,938	-	6,938		6,938
22	Insurance - General Liability	3,443	-	3,443	-	3,443		3,443
23	Insurance - Health and Life	-	-	-	-	-		-
24	Regulatory Commission Expenese	-	-	-	-	-		-
25	Regulatory Commission Expense - Rate Case	10,000	-	10,000	-	10,000		10,000
26	Miscellaneous Expense	540	-	540	-	540		540
27	Bad Debt Expense	-	-	-	-	-		-
28	*Depreciation Expense*	28,545	(9,367)	19,178	-	19,178		19,178
29	Amortization of CIAC	-	-	-	-	-		-
30	Taxes Other than Income	-	-	-	-	-		-
31	Property Taxes	9,698	(65)	9,633	912	10,544	810	11,354
32	Income Taxes	(13,346)	3,319	(10,027)	9,805	(222)	5,485	5,263
33	Interest on Customer Deposits	325	-	325	-	325		325
34	**Total Operating Expenses**	$ 209,522	$ (8,648)	$ 200,874	$ 10,716	$ 211,591	$ 6,295	$ 217,885
35	**Operating Income (Loss)**	$ (41,272)	$ 8,648	$ (32,624)	$ 37,056	$ 4,432	$ 36,148	$ 40,580

References:
Column (A): Company Schedule C-1
Column (B): Schedule JMM-W11
Column (C): Column (A) + Column (B)
Column (D): Schedules JMM-W1, JMM-W14 and JMM-W15
Column (E): Column (C) + Column (D)
Column (F): Surcharge plus incremental property and income taxes
Column (G): Column (E) + Column (F)

Clear Springs Utility Company, Inc. - Water Division
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

Schedule JMM-W11

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Water Testing Expenses ADJ #1	[C] Depreciation Expense ADJ #2	[D] Property Tax Expense ADJ #3	[E] Income Tax Expense ADJ #4	[F] STAFF ADJUSTED
1	*REVENUES:*		Ref: Sch JMM-W12	Ref: Sch JMM-W13	Ref: Sch JMM-W14	Ref: Sch JMM-W15	
2	Metered Water Sales	$ 165,031	$ -	$ -	$ -	$ -	$ 165,031
3	Water Sales-Unmetered	-	-	-	-	-	-
4	Other Water Revenue	3,219	-	-	-	-	3,219
5	Intentionally Left Blank	-	-	-	-	-	-
6	**Total Operating Revenues**	$ 168,250	$ -	$ -	$ -	$ -	$ 168,250
7							
8	*OPERATING EXPENSES:*						
9	Salaries and Wages	$ -	$ -	$ -	$ -	$ -	$ -
10	Purchased Water	-	-	-	-	-	-
11	Purchased Power	40,551	-	-	-	-	40,551
12	Fuel for Power Production	-	-	-	-	-	-
13	Chemicals	1,811	-	-	-	-	1,811
14	Repairs and Maintenance	12,168	-	-	-	-	12,168
15	Office Supplies and Expense	9,437	-	-	-	-	9,437
16	Outside Services	92,240	-	-	-	-	92,240
17	Outside Services - Other	-	-	-	-	-	-
18	Outside Services - Legal	-	-	-	-	-	-
19	Water Testing	7,172	(2,535)	-	-	-	4,637
20	Rents	-	-	-	-	-	-
21	Transportation Expenses	6,938	-	-	-	-	6,938
22	Insurance - General Liability	3,443	-	-	-	-	3,443
23	Insurance - Health and Life	-	-	-	-	-	-
24	Regulatory Commission Expenese	-	-	-	-	-	-
25	Regulatory Commission Expense - Rate Case	10,000	-	-	-	-	10,000
26	Miscellaneous Expense	540	-	-	-	-	540
27	Bad Debt Expense	-	-	-	-	-	-
28	Depreciation Expense	28,545	-	(9,367)	-	-	19,178
29	Amortization of CIAC	-	-	-	-	-	-
30	Taxes Other than Income	-	-	-	-	-	-
31	Property Taxes	9,698	-	-	(65)	-	9,633
32	Income Taxes	(13,346)	-	-	-	3,319	(10,027)
33	Interest on Customer Deposits	325	-	-	-	-	325
34	**Total Operating Expenses**	$ 209,522	$ (2,535)	$ (9,367)	$ (65)	$ 3,319	$ 200,874
35	**Operating Income (Loss)**	$ (41,272)	$ 2,535	$ 9,367	$ 65	$ (3,319)	$ (32,624)

Clear Springs Utility Company, Inc. - Water Division
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

Schedule JMM-W12

OPERATING ADJUSTMENT NO. 1 - WATER TESTING EXPENSE

Line No.	Description	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Water Testing	$ 7,172	$ (2,535)	$ 4,637

References:
Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Clear Springs Utility Company, Inc. - Water Division
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

Schedule JMM-W13

OPERATING INCOME ADJUSTMENT NO. 2 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	301	Organization Cost	$ 1,625	$ 1,625	$ -	0.00%	$ -
2	302	Franchise Cost	$ -	$ -	$ -	0.00%	$ -
3	303	Land and Land Rights	$ 210	$ 210	$ -	0.00%	$ -
4	304	Structures and Improvements	$ 28,565	$ 28,565	$ -	3.33%	$ -
5	305	Collecting and Impounding Res.	$ -	$ -	$ -	2.50%	$ -
6	306	Lake River and Other Intakes	$ -	$ -	$ -	2.50%	$ -
7	307	Wells and Springs	$ 179,255	$ -	$ 179,255	3.33%	$ 5,969
8	308	Infiltration Galleries and Tunnels	$ -	$ -	$ -	6.67%	$ -
9	309	Supply Mains	$ -	$ -	$ -	2.00%	$ -
10	310	Power Generation Equipment	$ -	$ -	$ -	5.00%	$ -
11	311	Electric Pumping Equipment	$ 177,126	$ 121,259	$ 55,867	12.50%	$ 6,983
12	320	Water Treatment Equipment	$ -	$ -	$ -	3.33%	$ -
13	320	Water Treatment Plant	$ 4,574	$ -	$ 4,574	20.00%	$ 915
14	330	Distribution Reservoirs & Standpipe	$ 16,011	$ 16,011	$ -	2.22%	$ -
15	330.1	Storage Tanks	$ 122,423	$ -	$ 122,423	2.22%	$ 2,718
16	330.2	Pressure Tanks	$ -	$ -	$ -	5.00%	$ -
17	331	Transmission and Distribution Mains	$ 349,433	$ -	$ 349,433	2.00%	$ 6,989
18	333	Services	$ 121,259	$ -	$ 121,259	3.33%	$ 4,038
19	334	Meters	$ 83,678	$ 78,938	$ 4,740	8.33%	$ 395
20	335	Hydrants	$ 12,214	$ 9,850	$ 2,364	2.00%	$ 47
21	336	Backflow Prevention Devices	$ -	$ -	$ -	6.67%	$ -
22	339	Other Plant and Miscellaneous Equipment	$ -	$ -	$ -	6.67%	$ -
23	340	Office Furniture and Fixtures	$ 3,274	$ 3,274	$ -	6.67%	$ -
24	341	Transportation Equipment	$ -	$ -	$ -	20.00%	$ -
25	342	Stores Equipment	$ -	$ -	$ -	4.00%	$ -
26	343	Tools and Work Equipment	$ 6,727	$ 6,727	$ -	5.00%	$ -
27	344	Laboratory Equipment	$ -	$ -	$ -	10.00%	$ -
28	345	Power Operated Equipment	$ -	$ -	$ -	5.00%	$ -
29	346	Communications Equipment	$ -	$ -	$ -	10.00%	$ -
30	347	Miscellaneous Equipment	$ -	$ -	$ -	10.00%	$ -
31	348	Other Tangible Plant	$ -	$ -	$ -	10.00%	$ -
32		Total Plant	$ 1,106,374	$ 266,459	$ 839,915		$ 28,054
33							
34		Composite Depreciation Rate (Depr Exp / Depreciable Plant):	3.34%				
35		CIAC:	$ 265,728				
36		Amortization of CIAC (Line 32 x Line 33):	$ 8,876				
37							
38		Depreciation Expense Before Amortization of CIAC:	$ 28,054				
39		Less Amortization of CIAC:	$ 8,876				
40		**Test Year Depreciation Expense - Staff:**	**$ 19,178**				
41		Depreciation Expense - Company:	$ 28,545				
42		**Staff's Total Adjustment:**	**$ (9,367)**				
43							

Note: For accounts 311, 334, and 335 the Company recognizes a portion of the origingal cost balance as fully depreciated. See Company Schedule C-2Wc.

References:
Column [A]: Schedule JMM-W4
Column [B]: From Column [A]
Column [C]: Column [A] - Column [B]
Column [D]: Engineering Staff Report
Column [E]: Column [C] x Column [D]

Clear Springs Utility Company, Inc. - Water Division
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

Schedule JMM-W14

OPERATING INCOME ADJUSTMENT NO. 3 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED	[C] STAFF W/SURCHARGE
1	Staff Adjusted Test Year Revenues	$ 168,250	$ 168,250	$ 168,250
2	Weight Factor	2	2	2
3	Subtotal (Line 1 * Line 2)	336,500	$ 336,500	$ 336,500
4	Staff Recommended Revenue, Per Schedule JMM-1	168,250	$ 216,023	$ 258,465
5	Subtotal (Line 4 + Line 5)	504,750	552,523	594,965
6	Number of Years	3	3	3
7	Three Year Average (Line 5 / Line 6)	168,250	$ 184,174	$ 198,322
8	Department of Revenue Mutilplier	2	2	2
9	Revenue Base Value (Line 7 * Line 8)	336,500	$ 368,349	$ 396,644
10	Plus: 10% of CWIP -	-	-	-
11	Less: Net Book Value of Licensed Vehicles	-	$ -	$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	336,500	$ 368,349	$ 396,644
13	Assessment Ratio	20.5%	20.5%	20.5%
14	Assessment Value (Line 12 * Line 13)	68,983	$ 75,511	$ 81,312
15	Composite Property Tax Rate (Per Company Schedule)	13.9638%	13.9638%	13.9638%
16			$ -	
17	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	$ 9,633		
18	Company Proposed Property Tax	9,698		
19				
20	Staff Test Year Adjustment (Line 17-Line 18)	$ (65)		
21	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		$ 10,544	$ 11,354
22	Staff Test Year Adjusted Property Tax Expense (Line 17)		$ 9,633	$ 10,544
23	Increase in Property Tax Expense Due to Increase in Revenue Requirement		$ 912	$ 810
24				
25	Increase to Property Tax Expense		$ 912	
26	Increase in Revenue Requirement		47,773	
27	Increase to Property Tax per Dollar Increase in Revenue (Line 25/Line 26)		1.908386%	

References:
Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Clear Springs Utility Company, Inc. - Water Division
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

Schedule JMM-W15

OPERATING INCOME ADJUSTMENT NO. 4 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Income Tax Expense	$ (13,346)	$ 3,319	$ (10,027)

References:
Column (A), Company Schedule C-1
Column (B): Column [C] - Column [A]
Column (C): Schedule JMM-W2

Clear Springs Utility Company, Inc. - Water Division **Schedule JMM-W16**
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

CASH FLOW ANALYSIS - WATER

Line No.		Without Surcharge	Without Surcharge and with New Loan	With Surcharge and with New Loan
1	**Cash Inflows**			
2	Revene - Base Rates	$ 216,023	$ 216,023	$ 216,023
3	Revenue - Surcharge for $10,000 Cash Flow with Loan			$ 42,443
4	Total Revenue	$ 216,023	$ 216,023	$ 258,465
5				
6	**Cash Outflows**			
7	Salaries and Wages	$ -	$ -	$ -
8	Purchased Water	$ -	$ -	$ -
9	Purchased Power	$ 40,551	$ 40,551	$ 40,551
10	Fuel for Power Production	$ -	$ -	$ -
11	Chemicals	$ 1,811	$ 1,811	$ 1,811
12	Repairs and Maintenance	$ 12,168	$ 12,168	$ 12,168
13	Office Supplies and Expense	$ 9,437	$ 9,437	$ 9,437
14	Outside Services	$ 92,240	$ 92,240	$ 92,240
15	Outside Services - Other	$ -	$ -	$ -
16	Outside Services - Legal	$ -	$ -	$ -
17	Water Testing	$ 4,637	$ 4,637	$ 4,637
18	Rents	$ -	$ -	$ -
19	Transportation Expenses	$ 6,938	$ 6,938	$ 6,938
20	Insurance - General Liability	$ 3,443	$ 3,443	$ 3,443
21	Insurance - Health and Life	$ -	$ -	$ -
22	Regulatory Commission Expenese	$ -	$ -	$ -
23	Regulatory Commission Expense - Rate Case	$ 10,000	$ 10,000	$ 10,000
24	Miscellaneous Expense	$ 540	$ 540	$ 540
25	Bad Debt Expense	$ -	$ -	$ -
26	Depreciation Expense	$ 19,178	$ 19,178	$ 19,178
27	Amortization of CIAC	$ -	$ -	$ -
28	Taxes Other than Income	$ -	$ -	$ -
29	Property Taxes	$ 10,544	$ 10,544	$ 11,354
30	Income Taxes	$ (222)	$ (3,448)	$ 5,263
31	Interest on Customer Deposits	$ 325	$ 325	$ 325
32	Total Expenses	$ 211,591	$ 208,365	$ 217,885
33				
34	**Operating Income**	$ 4,432	$ 7,658	$ 40,580
35				
36	Plus Depreciation Expense	$ 19,178	$ 19,178	$ 19,178
37	Less: AIAC Refunded in Test Year	$ 525	$ 525	$ 525
38	Less: WIFA Loan Payment Interest[1]	$ 5,271	$ 20,689	$ 20,689
39	Less: WIFA Loan Payment Principle[1]	$ 5,630	$ 20,339	$ 20,339
40	**Cash Flow from Operations before WIFA Reserve**	$ 12,185	$ (14,716)	$ 18,206
41				
42	WIFA Reserve (20% of Principal and Interest)	$ 2,180	$ 10,386	$ 8,206
43	**Cash Flow from Operations after WIFA Reserve**	**$ 10,004**	**$ (25,102)**	**$ 10,000**
44				
45	Operating Income	$ 4,432	$ 7,658	$ 40,580
46	Less: WIFA Loan Payment Interest	$ 5,271	$ 20,689	$ 20,689
47	**Net Income**	$ 9,703	$ 28,348	$ 19,891
48				
49	Rate of Return on Rate Base	11.50%	19.87%	105.29%
50	Operating Margin	2.05%	3.55%	15.70%

[1] Calculated based on WIFA loans authorized in Decision Nos. 62583 and 68443.

Clear Springs Utility Company, Inc. - Water Division
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Test Year Ended December 31, 2010

Schedule JMM-W17

FINANCIAL ANALYSIS

		[A] Water 12/31/2010	[B] Wastewater 12/31/2010	[C] Combined 12/31/2010	[D] *Pro forma Combined Without Surcharge*	[E] *Pro forma Combined Includes Surcharge*
1	Operating Income	$4,432	$8,273	$12,705	$12,705	$48,853
2	Depreciation & Amort.	19,178	0	$19,178	$19,178	19,178
3	Income Tax Expense	-222	2,189	$1,967	$1,967	7,452
4						
5	Interest Expense	5,271	0	$5,271	$20,689	20,689
6	Repayment of Principal	5,630	0	$5,630	$20,339	20,339
7						
8	**TIER**					
9	[1+3] ÷ [5]	0.80	N/M	2.78	0.71	2.72
10						
11	**DSC**					
12	[1+2+3] ÷ [5+6]	2.15	N/M	3.11	0.83	1.84
13						
14						

References:
Column [A]: Staff Recommended Water Divison
Column [B]: Staff Recommended Wastewater Division
Column [C]: Column [A] + Column [B]
Column [D]: Pro forma Loan with no Surcharge
Column [E]: Pro forma Loan includes Surcharge

CALCULATION OF INFRASTRUCTURE SURCHARGE AMOUNT

Infrastructure Surcharge Based on AWWA Meter Multipliers

Loan Amount			$	**426,249**
Additional Revenue Required for $10,000 Cash Flow			$	**42,443**
Total Equivalent Annual Bills				**8,502**
5/8"x 3/4" Meter Surcharge Amount	$ 42,443	/ 8,502 =	$	**4.99**
3/4" Meter Surcharge Amount	$ 42,443	/ 8,502 x 1.5 =	$	**7.49**
1" Meter Surcharge Amount	$ 42,443	/ 8,502 x 2.5 =	$	**12.48**
1 1/2" Meter Surcharge Amount	$ 42,443	/ 8,502 x 5 =	$	**24.96**
2" Meter Surcharge Amount	$ 42,443	/ 8,502 x 8 =	$	**39.94**
3." Meter Surcharge Amount	$ 42,443	/ 8,502 x 16 =	$	**79.87**
4" Meter Surcharge Amount	$ 42,443	/ 8,502 x 25 =	$	**124.80**
6" Meter Surcharge Amount	$ 42,443	/ 8,502 x 50 =	$	**249.60**

Meter Size	Number of Customers [1]	Meter Multiplier	Equivalent Customers	Equivalent No. of Bills	Monthly Surcharge	Yearly Surcharge	Total Amount
5/8" x 3/4" Meter	582	1	582	6,984	$ 4.99	$ 59.90	$ 34,865
3/4" Meter	6	1.5	9	108	7.49	89.86	$ 539
1" Meter	17	2.5	43	510	12.48	149.76	$ 2,546
1 1/2" Meter	7	5	35	420	24.96	299.52	$ 2,097
2" Meter	3	8	24	288	39.94	479.24	$ 1,438
3" Meter	1	16	16	192	79.87	958.48	$ 958
4" Meter	-	25	-	-	124.80	1,497.62	$ -
6" Meter	-	50	-	-	249.60	2,995.24	$ -
TOTAL	616		709	8,502			$ 42,443

Monthly Usage Charge	Present	Company Proposed Rates	Staff Recommended Rates
Meter Size (All Classes):			
5/8 x 3/4 Inch	$ 11.00	$ 16.00	$ 12.00
3/4 Inch	14.50	24.00	18.00
1 Inch	23.25	40.00	30.00
1 1/2 Inch	44.00	80.00	60.00
2 Inch	66.00	128.00	96.00
3 Inch	125.50	256.00	192.00
4 Inch	250.00	400.00	300.00
6 Inch	500.00	800.00	600.00
Commodity Charge - Per 1,000 Gallons			
5/8" x 3/4" Meter (Residential)			
First 3,000 gallons	$ 1.2500	N/A	N/A
3,001 to 10,000 gallons	2.2500	N/A	N/A
All gallons over 10,000	3.5000	N/A	N/A
First 3,000 gallons	N/A	$ 1.8200	N/A
3,001 to 8,000 gallons	N/A	3.7500	N/A
Over 8,000 gallons	N/A	6.0000	N/A
First 3,000 gallons	N/A	N/A	$ 1.4000
3,001 to 8,000 gallons	N/A	N/A	3.5000
Over 8,000 gallons	N/A	N/A	5.0000
3/4" Meter (Residential)			
First 3,000 gallons	1.2500	N/A	N/A
3,001 to 10,000 gallons	2.2500	N/A	N/A
All gallons over 10,000	3.5000	N/A	N/A
First 3,000 gallons	N/A	1.8200	N/A
3,001 to 8,000 gallons	N/A	3.7500	N/A
Over 8,000 gallons	N/A	6.0000	N/A
First 3,000 gallons	N/A	N/A	1.4000
3,001 to 8,000 gallons	N/A	N/A	3.5000
Over 8,000 gallons	N/A	N/A	5.0000
5/8" x 3/4" Meter (Commerical/Irrigation)			
First 3,000 gallons	1.2500	N/A	N/A
3,001 to 10,000 gallons	2.2500	N/A	N/A
All gallons over 10,000	3.5000	N/A	N/A
First 3,000 gallons	N/A	1.8200	N/A
3,001 to 8,000 gallons	N/A	3.7500	N/A
Over 8,000 gallons	N/A	6.0000	N/A
First 8,000 gallons	N/A	N/A	3.5000
Over 8,000 gallons	N/A	N/A	5.0000
3/4" Meter (Commercial/Irrigation)			
First 3,000 gallons	1.2500	N/A	N/A
3,001 to 10,000 gallons	2.2500	N/A	N/A
All gallons over 10,000	3.5000	N/A	N/A
First 3,000 gallons	N/A	1.8200	N/A
3,001 to 8,000 gallons	N/A	3.7500	N/A
Over 8,000 gallons	N/A	6.0000	N/A
First 8,000 gallons	N/A	N/A	3.5000
Over 8,000 gallons	N/A	N/A	5.0000
1" Meter (All Classes)			
First 31,000 gallons	2.2500	N/A	N/A
Over 31,000 gallons	3.5000	N/A	N/A
First 30,000 gallons	N/A	3.7500	N/A
Over 30,000 gallons	N/A	6.0000	N/A
First 15,000 gallons	N/A	N/A	3.5000
Over 15,000 gallons	N/A	N/A	5.0000
1.5" Meter (All Classes)			
First 58,000 gallons	2.2500	N/A	N/A
Over 58,000 gallons	3.5000	N/A	N/A
First 50,000 gallons	N/A	3.7500	N/A
Over 50,000 gallons	N/A	6.0000	N/A
First 35,000 gallons	N/A	N/A	3.5000
Over 35,000 gallons	N/A	N/A	5.0000

2" Meter (All Classes)			
First 74,000 gallons	2.2500	N/A	N/A
Over 74,000 gallons	3.5000	N/A	N/A
First 70,000 gallons	N/A	3.7500	N/A
Over 70,000 gallons	N/A	6.0000	N/A
First 60,000 gallons	N/A	N/A	3.5000
Over 60,000 gallons	N/A	N/A	5.0000
3" Meter (All Classes)			
First 100,000 gallons	2.2500	3.7500	N/A
Over 100,000 gallons	3.5000	6.0000	N/A
First 125,000 gallons	N/A	N/A	3.5000
Over 125,000 gallons	N/A	N/A	5.0000
4" Meter (All Classes)			
First 150,000 gallons	2.2500	3.7500	N/A
Over 150,000 gallons	3.5000	6.0000	N/A
First 200,000 gallons	N/A	N/A	3.5000
Over 200,000 gallons	N/A	N/A	5.0000
6" Meter (All Classes)			
First 250,000 gallons	2.2500	3.7500	N/A
Over 250,000 gallons	3.5000	6.0000	N/A
First 400,000 gallons	N/A	N/A	3.5000
Over 400,000 gallons	N/A	N/A	5.0000
Bulk Water Sales - 3"			
Excess of Minimum	4.0000	6.0000	N/A
All Usage (per 1,000 gallons)	N/A	N/A	5.0000

Other Service Charges

Establishment	$ 30.00	$ 35.00	$ 35.00
Establishment (After Hours)	$ 45.00	N/A	N/A
Reconnection (Delinquent)	$ 30.00	$ 40.00	$ 40.00
Meter Test (If Correct)	$ 45.00	$ 45.00	$ 45.00
Meter Reread (If Correct)	$ 25.00	$ 30.00	$ 30.00
NSF Check Charge	$ 20.00	$ 25.00	$ 25.00
Deposit	*	*	*
Deposit Interest (Per Annum)	*	*	*
Deferred Payment (Per Month)	1.50%	1.50%	**
Late Payment Fee (Per Month)	N/A	2.00%	1.50%
Re-establishment (within 12 months)	***	***	***
After Hours Service Charge	N/A	$ 25.00	$ 25.00

* Per Commission Rule A.A.C. R-14-2-403(B)
** Per Commission Rule A.A.C. R-14-2-403(B)
**** 2% of monthly minimum for a comparable sized meter connection, but no less than $10.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

Service and Meter Installation Charges

	Total Present Charge	Proposed Service Line Charge	Proposed Meter Insallation Charge	Total Proposed Charge	Recommended Service Line Charge	Recommended Meter Insallation Charge	Total Recommended Charge
Service Size 5/8"	$ 550.00	$ 445.00	$ 155.00	$ 600.00	$ 445.00	$ 155.00	$ 600.00
3/4"	$ 550.00	$ 445.00	$ 255.00	$ 700.00	$ 445.00	$ 255.00	$ 700.00
1"	$ 650.00	$ 495.00	$ 315.00	$ 810.00	$ 495.00	$ 315.00	$ 810.00
1-1/2"	$ 875.00	$ 550.00	$ 525.00	$ 1,075.00	$ 550.00	$ 525.00	$ 1,075.00
2" Turbine	$ 1,400.00	$ 830.00	$ 1,045.00	$ 1,875.00	$ 830.00	$ 1,045.00	$ 1,875.00
2" Compound	N/A	$ 830.00	$ 1,890.00	$ 2,720.00	$ 830.00	$ 1,890.00	$ 2,720.00
3" Turbine	$ 1,900.00	$ 1,045.00	$ 1,670.00	$ 2,715.00	$ 1,045.00	$ 1,670.00	$ 2,715.00
3" Compound	N/A	$ 1,165.00	$ 2,545.00	$ 3,710.00	$ 1,165.00	$ 2,545.00	$ 3,710.00
4" Turbine	$ 3,200.00	$ 1,490.00	$ 2,670.00	$ 4,160.00	$ 1,490.00	$ 2,670.00	$ 4,160.00
4" Compound	N/A	$ 1,670.00	$ 3,645.00	$ 5,315.00	$ 1,670.00	$ 3,645.00	$ 5,315.00
6" Turbine	$ 5,800.00	$ 2,210.00	$ 5,025.00	$ 7,235.00	$ 2,210.00	$ 5,025.00	$ 7,235.00
6" Compound	N/A	$ 2,330.00	$ 6,920.00	$ 9,250.00	$ 2,300.00	$ 6,920.00	$ 9,220.00

Other Rates and Charges by Order:

In Addition to the Collection of its regular rates and charges, the Company shall collect from customers their proportionate share of any privilege, sales or use tax in accordance with R14-2-409.D.5.

Clear Springs Utility Company, Inc. - Water Division **Schedule JMM-W20**
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	5,179	$ 19.65	$ 29.63	$ 9.98	50.77%
Median Usage	3,318	15.47	22.65	$ 7.19	46.47%
Staff Recommended					
Average Usage	5,179	$ 19.65	$ 23.83	$ 4.17	21.24%
Median Usage	3,318	15.47	17.31	$ 1.85	11.95%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	$ 11.00	$ 16.00	45.45%	$ 12.00	9.09%
1,000	12.25	17.82	45.47%	13.40	9.39%
2,000	13.50	19.64	45.48%	14.80	9.63%
3,000	14.75	21.46	45.49%	16.20	9.83%
4,000	17.00	25.21	48.29%	19.70	15.88%
5,000	19.25	28.96	50.44%	23.20	20.52%
6,000	21.50	32.71	52.14%	26.70	24.19%
7,000	23.75	36.46	53.52%	30.20	27.16%
8,000	26.00	40.21	54.65%	33.70	29.62%
9,000	28.25	46.21	63.58%	38.70	36.99%
10,000	30.50	52.21	71.18%	43.70	43.28%
11,000	34.00	58.21	71.21%	48.70	43.24%
12,000	37.50	64.21	71.23%	53.70	43.20%
13,000	41.00	70.21	71.24%	58.70	43.17%
14,000	44.50	76.21	71.26%	63.70	43.15%
15,000	48.00	82.21	71.27%	68.70	43.13%
16,000	51.50	88.21	71.28%	73.70	43.11%
17,000	55.00	94.21	71.29%	78.70	43.09%
18,000	58.50	100.21	71.30%	83.70	43.08%
19,000	62.00	106.21	71.31%	88.70	43.06%
20,000	65.50	112.21	71.31%	93.70	43.05%
25,000	83.00	142.21	71.34%	118.70	43.01%
30,000	100.50	172.21	71.35%	143.70	42.99%
35,000	118.00	202.21	71.36%	168.70	42.97%
40,000	135.50	232.21	71.37%	193.70	42.95%
45,000	153.00	262.21	71.38%	218.70	42.94%
50,000	170.50	292.21	71.38%	243.70	42.93%
75,000	258.00	442.21	71.40%	368.70	42.91%
100,000	345.50	592.21	71.41%	493.70	42.89%

Clear Springs Utility Company, Inc. - Water Division (with surcharge) **Schedule JMM-W21**
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	5,179	$ 19.65	$ 29.63	$ 9.98	50.77%
Median Usage	3,318	15.47	22.65	$ 7.19	46.47%
Staff Recommended					
Average Usage	5,179	$ 19.65	$ 28.82	$ 9.16	46.63%
Median Usage	3,318	15.47	22.30	$ 6.84	44.21%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	$ 11.00	$ 16.00	45.45%	$ 16.99	54.45%
1,000	12.25	17.82	45.47%	18.39	50.12%
2,000	13.50	19.64	45.48%	19.79	46.59%
3,000	14.75	21.46	45.49%	21.19	43.66%
4,000	17.00	25.21	48.29%	24.69	45.24%
5,000	19.25	28.96	50.44%	28.19	46.44%
6,000	21.50	32.71	52.14%	31.69	47.40%
7,000	23.75	36.46	53.52%	35.19	48.17%
8,000	26.00	40.21	54.65%	38.69	48.81%
9,000	28.25	46.21	63.58%	43.69	54.65%
10,000	30.50	52.21	71.18%	48.69	59.64%
11,000	34.00	58.21	71.21%	53.69	57.91%
12,000	37.50	64.21	71.23%	58.69	56.51%
13,000	41.00	70.21	71.24%	63.69	55.34%
14,000	44.50	76.21	71.26%	68.69	54.36%
15,000	48.00	82.21	71.27%	73.69	53.52%
16,000	51.50	88.21	71.28%	78.69	52.80%
17,000	55.00	94.21	71.29%	83.69	52.16%
18,000	58.50	100.21	71.30%	88.69	51.61%
19,000	62.00	106.21	71.31%	93.69	51.11%
20,000	65.50	112.21	71.31%	98.69	50.67%
25,000	83.00	142.21	71.34%	123.69	49.02%
30,000	100.50	172.21	71.35%	148.69	47.95%
35,000	118.00	202.21	71.36%	173.69	47.19%
40,000	135.50	232.21	71.37%	198.69	46.63%
45,000	153.00	262.21	71.38%	223.69	46.20%
50,000	170.50	292.21	71.38%	248.69	45.86%
75,000	258.00	442.21	71.40%	373.69	44.84%
100,000	345.50	592.21	71.41%	498.69	44.34%

Clear Springs Utility Company, Inc. - Wastewater Division
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

Direct Testimony of Jeffrey M. Michlik

TABLE OF CONTENTS TO SCHEDULES

Clear Springs Utility Company, Inc. - Wastewater Division **Schedule JMM-WW1**
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	$ (13,244)	$ (13,016)
2	Adjusted Operating Income (Loss)	$ 9,556	$ 8,273
3	Current Rate of Return (L2 / L1)	-72.15%	-63.56%
4	Required Rate of Return	**N/M**	**N/M**
5	Required Operating Income (L4 * L1)	$ 9,556	$ 8,273
6	Operating Income Deficiency (L5 - L2)	$ -	$ (0)
7	Gross Revenue Conversion Factor	1.0000	1.2892
8	Required Revenue Increase (L7 * L6)	$ -	**$ (0)**
9	Adjusted Test Year Revenue	$ 47,802	$ 47,802
10	Proposed Annual Revenue	$ 47,802	$ 47,802
11	Required Increase in Revenue (%)	0.00%	0.00%

N/M = Not Meaningful

References:
Column (A): Company Schedule A-1
Column (B): Staff Schedules JMM-WW3 and JMM-WW8

Clear Springs Utility Company, Inc. - Wastewater Division
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

Schedule JMM-WW2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	Calculation of Gross Revenue Conversion Factor:				
1	Revenue	100.0000%			
2	Uncollecible Factor	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 18)	22.4303%			
5	Subtotal (L3 - L4)	77.5697%			
6	**Revenue Conversion Factor (L1 / L5)**	1.289162			
	Calculation of Effective Tax Rate:				
7	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
8	Arizona State Income Tax Rate	6.9680%			
9	Federal Taxable Income (L7 - L8)	93.0320%			
10	Applicable Federal Income Tax Rate (Line 48)	15.0000%			
11	*Effective Federal Income Tax Rate (L9 x L10)*	13.9548%			
12	Combined Federal and State Income Tax Rate (L8 +L11)		20.9228%		
	Calculation of Effective Property Tax Factor				
13	Unity	100.0000%			
14	*Combined Federal and State Income Tax Rate (L12)*	20.9228%			
15	One Minus Combined Income Tax Rate (L13-L14)	79.0772%			
16	Property Tax Factor (JMM-WW12, L27)	1.9063%			
17	Effective Property Tax Factor (L15*L16)		1.5075%		
18	Combined Federal and State Income Tax and Property Tax Rate (L12+L17)			22.4303%	
19	Required Operating Income (Schedule JMM-WW1, Line 5)	$ 8,273			
20	AdjustedTest Year Operating Income (Loss) (JMM-WW8, L35)	8,273			
21	Required Increase in Operating Income (L19 - L20)		$ -		
22	*Income Taxes on Recommended Revenue (Col. [C], L47)*	$ 2,189			
23	Income Taxes on Test Year Revenue (Col. [A], L47)	2,189			
24	Required Increase in Revenue to Provide for Income Taxes (L22 - L23)		(0)		
25	Recommended Revenue Requirement (Schedule JMM-WW1, Line 10)	$ 47,802			
26	*Uncollectible Rate*	0.0000%			
27	Uncolllectible Expense on Recommended Revenue (L25*L26)	$ -			
28	Adjusted Test Year Uncollectible Expense	$ -			
29	Required Increase in Revenue to Provide for Uncollectible Exp. (L27-L28)		-		
30	Property Tax with Recommended Revenue (Schedule JMM-WW12, L21)	$ 2,734			
31	Property Tax on Test Year Revenue (Schedule JMM-WW12, Line 17)	2,734			
32	Increase in Property Tax Due to Increase in Revenue (L30-31)		(0)		
33	Total Required Increase in Revenue (L21 + L24 + L29 + L32)		$ (0)		

	Calculation of Income Tax:	Test Year		Staff Recommended
34	Revenue (Schedule JMM-WW1, Col. [B], Line 9 & Sch. JMM-WW1, Col. [B] Line 10	$ 47,802	$ (0)	$ 47,802
35	Operating Expenses Excluding Income Taxes	$ 37,340		$ 37,340
36	Synchronized Interest (L51)	$ -		$ -
37	Arizona Taxable Income (L34 - L35 - L36)	$ 10,462		$ 10,462
38	Arizona State Income Tax Rate	6.9680%		6.9680%
39	Arizona Income Tax (L37 x L38)	$ 729		$ 729
40	Federal Taxable Income (L37- L39)	$ 9,733		$ 9,733
41	*Federal Tax on First Income Bracket ($1 - $50,000) @ 15%*	$ 1,460		$ 1,460
42	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	$ -		$ -
43	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ -		$ -
44	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ -		$ -
45	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ -		$ -
46	*Total Federal Income Tax*	$ 1,460		$ 1,460
47	Combined Federal and State Income Tax (L39 + L46)	$ 2,189		$ 2,189

48 Applicable Federal Income Tax Rate [Col. [C], L46 - Col. [A], L46] / [Col. [C], L40 - Col. [A], L40] 15.0000%

Clear Springs Utility Company, Inc. - Wastewater Division **Schedule JMM-WW3**
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 355,470	$ (495)	$ 354,975
2	Less: Accumulated Depreciation	328,780	(37)	328,743
3	Net Plant in Service	$ 26,690	$ (458)	$ 26,232
	LESS:			
4	Contributions in Aid of Construction (CIAC)	$ 87,976	$ -	$ 87,976
5	Less: Accumulated Amortization	83,400	-	$ 83,400
6	Net CIAC	4,576	-	$ 4,576
7	Advances in Aid of Construction (AIAC)	40,658	-	40,658
8	Customer Deposits	-	-	-
9	Deferred Income Tax Credits	-	-	-
	ADD:			
10	Working Capital Allowance	5,300	686	5,986
11	Defered Regulatory Assets	-	-	-
12	**Original Cost Rate Base**	$ (13,244)	$ 228	$ (13,016)

References:
Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Clear Springs Utility Company, Inc. - Wastewater Division
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

Schedule JMM-WW4

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.		[A] COMPANY AS FILED	[B] ADJ #1 Reclassification of Plant Ref: Sch JMM-WW5	[C] ADJ #2 Plant Not Used and Useful Ref: Sch JMM-WW6	[D] ADJ #3 Cash Working Capital Ref: Sch JMM-WW7	[E] STAFF ADJUSTED
	PLANT IN SERVICE:						
1		DESCRIPTION					
2	351	Organization Cost	$ -	$ -	$ -	$ -	$ -
3	352	Franchise Cost	-	-	-	-	-
4	353	Land and Land Rights	4,654	-	-	-	4,654
5	354	Structures and Improvements	9,999	-	(495)	-	9,504
6	355	Power Generation Equipment	51,208	(51,208)	-	-	-
7	360	Collection Sewers - Force	276,318	-	-	-	276,318
8	361	Collection Sewers - Gravity	-	-	-	-	-
9	362	Special Collecting Structures	-	-	-	-	-
10	363	Services to Customers	9,880	-	-	-	9,880
11	364	Flow Measuring Devices	-	-	-	-	-
12	365	Flow Measuring Installations	-	-	-	-	-
13	370	Receiving Wells	-	-	-	-	-
14	371	Pumping Equipment	-	51,208	-	-	51,208
15	375	Resuse T&D	-	-	-	-	-
16	380	Treatment and Disposal Equipment	487				487
17	381	Plant Sewers	-				-
18	382	Outfall Sewer Lines	-	-	-	-	-
19	389	Other Plant and Misc. Equipment	-	-	-	-	-
20	390	Office Furniture and Equipment	-	-	-	-	-
21	391	Transportation Equipment	863	-	-	-	863
22	393	Tools, Shop and Garage Equipment	2,061	-	-	-	2,061
23	394	Laboratory Equipment	-	-	-	-	-
24	395	Power Operated Equipment	-	-	-	-	-
25	398	Other Tangible Plant	-	-	-	-	-
23	Total Plant in Service - Actual		355,470	-	-	-	354,975
24		Post Test-Year Plant	-				-
25	Total Plant in Service		$ 355,470	$ -	$ (495)	$ -	$ 354,975
26	Less: Accumulated Depreciation		328,780	-	(37)	-	328,743
27			-	-	-		-
25	Net Plant in Service		$ 26,690	$ -	$ (458)	$ -	$ 26,232
26							
27	*LESS:*						
28	Contributions in Aid of Construction (CIAC)		$ 87,976	$ -	$ -	$ -	$ 87,976
29	Less: Accumulated Amortization		83,400	-	-	-	83,400
27	Net CIAC (L39 - L40)		4,576	-	-	-	4,576
28	Advances in Aid of Construction (AIAC)		40,658	-	-	-	40,658
29	Customer Deposits		-	-	-	-	-
30	Deferred Income Taxes		-	-	-	-	-
31			-				-
29							
30	*ADD:*						
31	Working Capital Allowance		5,300	-	-	686	5,986
32	Defered Regulatory Assets		-	-	-	-	-
33							
31	**Original Cost Rate Base**		$ (13,244)	$ -	$ (458)	$ 686	$ (13,016)

Clear Springs Utility Company, Inc. - Wastewater Division
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

Schedule JMM-WW5

RATE BASE ADJUSTMENT NO. 1 - RECLASSIFICATION OF PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED (Col A + Col B)
1	355	Power Generation Equipment	$ 51,208	$ (51,208)	$ -
2	371	Pumping Equipment	-	51,208	51,208
3		Total	$ 51,208	$ -	$ 51,208

Note: As the prior depreciation rate was 5.00 percent for all plant line items there is no corresponding adjustment to accumulated depreciation for the $51,208.

References:
Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Clear Springs Utility Company, Inc. - Wastewater Division
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

Schedule JMM-WW6

RATE BASE ADJUSTMENT NO. 2 - PLANT NOT USED AND USEFUL

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED (Col A + Col B)
1	354	Structures and Improvements	$ 9,999	$ (495)	$ 9,504
2		Accumulated Depreciation	$ 328,780	$ (37)	$ 328,743

References:
Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Clear Springs Utility Company, Inc. - Wastewater Division **Schedule JMM-WW7**
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

RATE BASE ADJUSTMENT NO. 3 - CASH WORKING CAPITAL

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Cash Working Capital	$ 5,300	$ 686	$ 5,986
2				
3	Staff's Calculation of Cash Working Capital			
4	1/24th Purchased Power	$ 138		
5	1/8th Operation & Maintenance Expense	4,246		
6	Materials and Supplies Inventories	1,602		
7	Total Cash Working Capital	$ 5,986		

References:
Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Clear Springs Utility Company, Inc. - Wastewater Division **Schedule JMM-WW8**
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	*REVENUES:*					
2	Flat Rate Revenues	$ -	$ -	$ -	$ -	$ -
3	Measured Revenues	47,372	-	47,372	(0)	47,372
4	Other Wastewater Revenues	430	-	430	-	430
5	Intentionally Left Blank	-	-	-	-	-
6	**Total Operating Revenues**	$ 47,802	$ -	$ 47,802	$ (0)	$ 47,802
7						
8	*OPERATING EXPENSES:*					
9	Salaries and Wages	$ -	$ -	$ -	$ -	$ -
10	Purchased Wastewater Treatment	-	-	-	-	-
11	Sludge Removal Expense	-	-	-	-	-
12	Purchased Power	3,313	-	3,313	-	3,313
13	Fuel for Power Production	-	-	-	-	-
14	Chemicals	-	-	-	-	-
15	Materials and Supplies	939	-	939	-	939
16	Office Supplies	431	-	431	-	431
17	Contractual Services - Professional	23,270	-	23,270	-	23,270
18	Contractual Services - Other	-	-	-	-	-
19	Water Testing	-	2,751	2,751	-	2,751
20	Transportation Expense	341	-	341	-	341
21	Insurance Expense	-	-	-	-	-
22	Rate Case Expense	3,500	-	3,500	-	3,500
23	Miscellaneous Expense	-	-	-	-	-
24	Depreciation Expense	1,128	(1,128)	(0)	-	(0)
25	Taxes Other than Income	-	-	-	-	-
26	Property Taxes	2,734	(0)	2,734	(0)	2,734
27	Income Taxes	2,529	(340)	2,189	(0)	2,189
28	Interest on Customer Deposits	61	-	61	-	61
29	**Total Operating Expenses**	$ 38,246	$ 1,283	$ 39,529	$ (0)	$ 39,529
30	**Operating Income (Loss)**	$ 9,556	$ (1,283)	$ 8,273	$ (0)	$ 8,273

References:
Column (A): Company Schedule C-1
Column (B): Schedule JMM-WW9
Column (C): Column (A) + Column (B)
Column (D): Schedules JMM-WW1, JMM-WW13 and JMM-WW14
Column (E): Column (C) + Column (D)

Clear Springs Utility Company, Inc. - Wastewater Division
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

Schedule JMM-WW9

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Water Testing Expenses ADJ #1	[C] Depreciation Expense ADJ #2	[D] Property Tax Expense ADJ #3	[E] Income Tax Expense ADJ #4	[E] STAFF ADJUSTED
			Ref: Sch JMM-WW10	Ref: Sch JMM-WW11	Ref: Sch JMM-WW12	Ref: Sch JMM-WW13	
1	*REVENUES:*						
2	Flat Rate Revenues	$ -	$ -	$ -	$ -	$ -	$ -
3	Measured Revenues	47,372	-	-	-	-	47,372
4	Other Wastewater Revenues	430	-	-	-	-	430
5	Intentionally Left Blank	-	-	-	-	-	-
6	**Total Operating Revenues**	$ 47,802	$ -	$ -	$ -	$ -	$ 47,802
7							
8	*OPERATING EXPENSES:*						
9	Salaries and Wages	$ -	$ -	$ -	$ -	$ -	$ -
10	Purchased Wastewater Treatment	-	-	-	-	-	-
11	Sludge Removal Expense	-	-	-	-	-	-
12	Purchased Power	3,313	-	-	-	-	3,313
13	Fuel for Power Production	-	-	-	-	-	-
14	Chemicals	-	-	-	-	-	-
15	Materials and Supplies	939	-	-	-	-	939
16	Office Supplies	431	-	-	-	-	431
17	Contractual Services - Professional	23,270	-	-	-	-	23,270
18	Contractual Services - Other	-	-	-	-	-	-
19	Water Testing Expense	-	2,751	-	-	-	2,751
20	Transportation Expense	341	-	-	-	-	341
21	Insurance Expense	-	-	-	-	-	-
22	Rate Case Expense	3,500	-	-	-	-	3,500
23	Miscellaneous Expense	-	-	-	-	-	-
24	Depreciation Expense	1,128	-	(1,128)	-	-	(0)
25	Taxes Other than Income	-	-	-	-	-	-
26	Property Taxes	2,734	-	-	(0)	-	2,734
27	Income Taxes	2,529	-	-	-	(340)	2,189
28	Interest on Customer Deposits	61	-	-	-	-	61
34	**Total Operating Expenses**	$ 38,246	$ 2,751	$ (1,128)	$ (0)	$ (340)	$ 39,529
35	**Operating Income (Loss)**	$ 9,556	$ (2,751)	$ 1,128	$ 0	$ 340	$ 8,273

Clear Springs Utility Company, Inc. - Wastewater Division **Schedule JMM-WW10**
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

OPERATING ADJUSTMENT NO. 1 - WASTEWATER TESTING EXPENSE

Line No.	Description	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Water Testing Expense	$ -	$ 2,751	$ 2,751

References:
Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 2 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	351	Organization Cost	$ -	$ -	$ -	0.00%	$ -
2	352	Franchise Cost	$ -	$ -	$ -	0.00%	$ -
3	353	Land and Land Rights	$ 4,654	$ 4,654	$ -	0.00%	$ -
4	354	Structures and Improvements	$ 9,504	$ -	$ 9,504	3.33%	$ 316
5	355	*Power Generation Equipment*	$ -	$ -	$ -	5.00%	$ -
6	360	Collection Sewers - Force	$ 276,318	$ 266,052	$ 10,266	2.00%	$ 205
7	361	Collection Sewers - Gravity	$ -	$ -	$ -	2.00%	$ -
8	362	Special Collecting Structures	$ -	$ -	$ -	2.00%	$ -
9	363	Services to Customers	$ 9,880	$ -	$ 9,880	2.00%	$ 198
10	364	Flow Measuring Devices	$ -	$ -	$ -	10.00%	$ -
11	365	Flow Measuring Installations	$ -	$ -	$ -	10.00%	$ -
12	370	Receiving Wells	$ -	$ -	$ -	3.33%	$ -
13	371	Pumping Equipment	$ 51,208	$ 45,916	$ 5,292	12.50%	$ 662
14	375	Resuse T&D	$ -	$ -	$ -	2.50%	$ -
15	380	Treatment and Disposal Equipment	$ 487	$ -	$ 487	5.00%	$ 24
16	381	Plant Sewers	$ -	$ -	$ -	5.00%	$ -
17	382	Outfall Sewer Lines	$ -	$ -	$ -	3.33%	$ -
18	389	Other Plant and Misc. Equipment	$ -	$ -	$ -	6.67%	$ -
19	390	Office Furniture and Equipment	$ -	$ -	$ -	6.67%	$ -
20	391	Transportation Equipment	$ 863	$ 863	$ -	20.00%	$ -
21	393	Tools, Shop and Garage Equipment	$ 2,061	$ -	$ 2,061	5.00%	$ 103
22	394	*Laboratory Equipment*	$ -	$ -	$ -	10.00%	$ -
23	395	Power Operated Equipment	$ -	$ -	$ -	5.00%	$ -
24	398	Other Tangible Plant	$ -	$ -	$ -	10.00%	$ -
32		Total Plant	$ 354,975	$ 317,485	$ 37,490		$ 1,508
33							
34		Net CIAC Balance:	$ 4,576				
35		Amortization of Remaining Net CIAC Over 3 Years (Line 34 / 4):	$ 1,525				
36							
37		Depreciation Expense Before Amortization of CIAC:	$ 1,508				
38		Less Amortization of CIAC:	$ 1,525				
39		**Test Year Depreciation Expense - Staff (rounded to zero):**	**$ (0)**				
40		Depreciation Expense - Company:	$ 1,128				
41		**Staff's Total Adjustment:**	**$ (1,128)**				

Note: For accounts 360, and 371 the Company recognizes a portion of the original cost balance as fully depreciated. See Company Schedule C-2Sb.

References:
Column [A]: Schedule JMM-WW4
Column [B]: From Column [A]
Column [C]: Column [A] - Column [B]
Column [D]: Engineering Staff Report
Column [E]: Column [C] x Column [D]

Clear Springs Utility Company, Inc. - Wastewater Division
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

Schedule JMM-WW12

OPERATING INCOME ADJUSTMENT NO. 3 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	$ 47,802	$ 47,802
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	95,604	$ 95,604
4	Staff Recommended Revenue, Per Schedule JMM-1	47,802	$ 47,802
5	Subtotal (Line 4 + Line 5)	143,406	143,406
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	47,802	$ 47,802
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	95,604	$ 95,604
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	95,604	$ 95,604
13	Assessment Ratio	20.5%	20.5%
14	Assessment Value (Line 12 * Line 13)	19,599	$ 19,599
15	Composite Property Tax Rate (Per Company Schedule)	13.9486%	13.9486%
16			$ -
17	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	$ 2,734	
18	Company Proposed Property Tax	2,734	
19			
20	Staff Test Year Adjustment (Line 17-Line 18)	$ (0)	
21	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		$ 2,734
22	Staff Test Year Adjusted Property Tax Expense (Line 17)		$ 2,734
23	Increase in Property Tax Expense Due to Increase in Revenue Requirement		$ (0)
24			
25	Increase to Property Tax Expense		$ (0)
26	Increase in Revenue Requirement		(0)
27	Increase to Property Tax per Dollar Increase in Revenue (Line 25/Line 26)		1.906309%

References:
Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Clear Springs Utility Company, Inc. - Wastewater Division
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

Schedule JMM-WW13

OPERATING INCOME ADJUSTMENT NO. 4 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Income Tax Expense	$ 2,529	$ (340)	$ 2,189

References:
Column (A), Company Schedule C-1
Column (B): Column [C] - Column [A]
Column (C): Schedule JMM-WW2

Clear Springs Utility Company, Inc. - Wastewater Division **Schedule JMM-WW14**
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

CASH FLOW ANALYSIS - WASTEWATER

Line No.			
1	**Cash Inflows**		
2	Revenue	$	47,802
3			
4	**Cash Outflows**		
5	Salaries and Wages	$	-
6	Purchased Wastewater Treatment	$	-
7	Sludge Removal Expense	$	-
8	Purchased Power	$	3,313
9	Fuel for Power Production	$	-
10	Chemicals	$	-
11	Materials and Supplies	$	939
12	Office Supplies	$	431
13	Contractual Services - Professional	$	23,270
14	Contractual Services - Other	$	-
15	Water Testing	$	2,751
16	Transportation Expense	$	341
17	Insurance Expense	$	-
18	Rate Case Expense	$	3,500
19	Miscellaneous Expense	$	-
20	Depreciation Expense	$	(0)
21	Taxes Other than Income	$	-
22	Property Taxes	$	2,734
23	Income Taxes	$	2,189
24	Interest on Customer Deposits	$	61
25	Total Expenses	$	39,529
26			
27	**Operating Income**	$	8,273
28			
29	Plus Depreciation Expense	$	(0)
30	Less: AIAC Refunded in Test Year	$	83
31	Less: WIFA Loan Payment Interest	$	-
32	Less: WIFA Loan Payment Principle	$	-
33	**Cash Flow from Operations**	$	8,190

Monthly Usage Charge	Present	Company Proposed Rates	Staff Recommended Rates
Meter Size (All Classes):			
Residential	$ 6.50	$ 9.00	$ 9.00
Commercial	6.50	9.36	9.36
Commodity Charge - Per 1,000 Gallons			
All Usage (per 1,000 gallons applies to both Residential and Commercail)	0.8500	N/A	N/A
Residential (After 6,000 gallons of water use)	N/A	0.8500	N/A
Commercial	0.8500	0.8500	0.8500
Residential			
First 6,000 gallons	N/A	N/A	0.0000
6,001 to 20,000 gallons	N/A	N/A	1.0000
Over 20,001 gallons	N/A	N/A	0.0000
Other Service Charges			
Establishment	$ 10.00	$ 30.00	$ 30.00
Reconnection (Delinquent)	*	*	*
Deposit - Residential	**	**	**
Deposit - Commercial	**	**	**
Deposit Interest (Per Annum)	**	**	**
NSF Check	$ 15.00	$ 25.00	$ 25.00
Deferred Payment (Per Month)	N/A	1.50%	1.50%
Late Payment Penalty (Per Month)	N/A	2.00%	1.50%
After Hours Service Charge	N/A	$ 25.00	$ 25.00
Sewer Tap Charge (Non-refundable)	Cost	Cost	Cost

* Per Commission Rule A.A.C. R-14-2-603(D)
**Per Commission Rule A.C.C R14-2-603(B)

Other Rates and Charges by Order:

In Addition to the Collection of its regular rates and charges, the Company shall collect from customers their proportionate share of any privilege, sales or use tax in accordance with R14-2-409.D.5.

Clear Springs Utility Company, Inc. - Wastewater Division **Schedule JMM-WW16**
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401
Test Year Ended December 31, 2010

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	4,763	$ 10.55	$ 9.00	$ (1.55)	-14.68%
Median Usage	3,226	9.24	9.00	$ (0.24)	-2.62%
Staff Recommended					
Average Usage	4,763	$ 10.55	$ 9.00	$ (1.55)	-14.68%
Median Usage	3,226	9.24	9.00	$ (0.24)	-2.62%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

Gallons	Present		Company Proposed		%	Staff Recommended		%
	3/4"		3/4"			3/4"		
	Minimum Charge	$ 6.50	Minimum Charge	$ 9.00		Minimum Charge	$ 9.00	
	1st Tier Rate	0.8500	1st Tier Rate	-		1st Tier Rate	-	
	1st Tier Breakover	1,000	1st Tier Breakover	6,000		1st Tier Breakover	6,000	
	2nd Tier Rate	0.8500	2nd Tier Rate	0.8500		2nd Tier Rate	1.0000	
	2nd Tier Breakover	99,999	2nd Tier Breakover	99,999		2nd Tier Breakover	20,000	
	3rd Tier Rate	0.8500	3rd Tier Rate	0.8500		3rd Tier Rate	-	
Consumption	Rates		Rates		Increase	Rates		Increase
-	$ 6.50		$ 9.00		38.46%	$ 9.00		38.46%
1,000	7.35		9.00		22.45%	9.00		22.45%
2,000	8.20		9.00		9.76%	9.00		9.76%
3,000	9.05		9.00		-0.55%	9.00		-0.55%
4,000	9.90		9.00		-9.09%	9.00		-9.09%
5,000	10.75		9.00		-16.28%	9.00		-16.28%
6,000	11.60		9.00		-22.41%	9.00		-22.41%
7,000	12.45		9.85		-20.88%	10.00		-19.68%
8,000	13.30		10.70		-19.55%	11.00		-17.29%
9,000	14.15		11.55		-18.37%	12.00		-15.19%
10,000	15.00		12.40		-17.33%	13.00		-13.33%
11,000	15.85		13.25		-16.40%	14.00		-11.67%
12,000	16.70		14.10		-15.57%	15.00		-10.18%
13,000	17.55		14.95		-14.81%	16.00		-8.83%
14,000	18.40		15.80		-14.13%	17.00		-7.61%
15,000	19.25		16.65		-13.51%	18.00		-6.49%
16,000	20.10		17.50		-12.94%	19.00		-5.47%
17,000	20.95		18.35		-12.41%	20.00		-4.53%
18,000	21.80		19.20		-11.93%	21.00		-3.67%
19,000	22.65		20.05		-11.48%	22.00		-2.87%
20,000	23.50		20.90		-11.06%	23.00		-2.13%
25,000	27.75		25.15		-9.37%	23.00		-17.12%
30,000	32.00		29.40		-8.13%	23.00		-28.13%
35,000	36.25		33.65		-7.17%	23.00		-36.55%
40,000	40.50		37.90		-6.42%	23.00		-43.21%
45,000	44.75		42.15		-5.81%	23.00		-48.60%
50,000	49.00		46.40		-5.31%	23.00		-53.06%
75,000	70.25		67.65		-3.70%	23.00		-67.26%
100,000	91.50		88.90		-2.84%	23.00		-74.86%

BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
Chairman
BOB STUMP
Commissioner
SANDRA D. KENNEDY
Commissioner
PAUL NEWMAN
Commissioner
BRENDA BURNS
Commissioner

APPLICATION OF CLEAR SPRINGS UTILITY CO., INC. FOR AN INCREASE IN RATES	)	DOCKET NO. WS-01689A-11-0402
IN THE MATTER OF THE APPLICATION OF CLEAR SPRINGS UTILITY COMPANY, INC. FOR AUTHORITY TO INCUR LONG-TERM DEBT	)	DOCKET NO. W-01689A-11-0401

DIRECT TESTIMONY

OF

DOROTHY HAINS, P. E.

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JUNE 13, 2012

TABLE OF CONTENTS

EXHIBITS

INTRODUCTION

Q. Please state your name and business address.

A. My name is Dorothy Hains. My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. By whom and in what position are you employed?

A. I am employed by the Arizona Corporation Commission ("Commission" or "ACC") as a Utilities Engineer - Water/Wastewater in the Utilities Division.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since January 1998.

Q. What are your responsibilities as a Utilities Engineer - Water/Wastewater?

A. My main responsibilities are to inspect, investigate and evaluate water and wastewater systems. This includes obtaining data, preparing reconstruction cost new and/or original cost studies, investigative reports, interpreting rules and regulations, and to suggest corrective action and provide technical recommendations on water and wastewater system deficiencies. I also provide written and oral testimony in rate cases and other cases before the Commission.

Q. How many companies have you analyzed for the Utilities Division?

A. I have analyzed more than 90 companies fulfilling these various responsibilities for Commission Utilities Division Staff ("Staff").

Q. Have you previously testified before this Commission?

A. Yes, I have testified on numerous occasions before this Commission.

Q. What is your educational background?

A. I graduated from the University of Alabama in Birmingham in 1987 with a Bachelor of Science degree in Civil Engineering.

Q. Briefly describe your pertinent work experience.

A. Before my employment with the Commission, I was an Environmental Engineer for the Arizona Department of Environmental Quality ("ADEQ") for ten years. Prior to that time, I was an Engineering Technician with C. F. Hains, Hydrology in Northport, Alabama for approximately five years.

Q. Please state your professional membership, registrations, and licenses.

A. I have been a registered Civil Engineer in Arizona since 1990. I am a member of the American Society of Civil Engineering, American Water Works Association and Arizona Water & Pollution Control Association.

PURPOSE OF TESTIMONY

Q. What was your assignment in this rate proceeding?

A. My assignment was to provide Staff's engineering evaluation for the subject Clear Springs Utility Co., Inc. ("Company" or "Clear Springs") rate and financing proceeding. The Company filed a rate application for its Water Division and Wastewater Division in this rate proceeding. The Company also filed a financing application for its Water Division. Those findings are contained in the Engineering Reports that I have prepared. The water report for the rate and financing is included as Exhibit DMH-1, in this pre-filed testimony. The wastewater report is included as Exhibit DMH-2, in this pre-filed testimony.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose is to present the findings of Staff's engineering evaluation of the operations for the both Company's water and wastewater systems. The findings are contained in the Engineering Reports that I have prepared for this proceeding.

ENGINEERING REPORTS

Q. Would you briefly describe what was involved in preparing your Engineering Reports for this rate proceeding?

A. After reviewing the application, I physically inspected the Company's water systems in the Water Districts and sewer system in its Wastewater District. I evaluated their operation and determined if any plant items were not used and useful. I contacted the ADEQ to determine if the water systems were in compliance with the Safe Drinking Water Act water quality requirements. I also contacted the ADEQ to determine if the sewer system was in compliance with its wastewater discharge permit limits. After I obtained information from the Company regarding plant improvements, permits, chemical testing expenses, water usage data and sewage discharge data, I analyzed that information. I also contacted the Arizona Department of Water Resources ("ADWR") to determine if the Water District was in compliance with the ADWR's requirements governing water providers and/or community water systems. Based on all the above, I prepared the attached Engineering Reports.

Q. Please describe the information contained in your Engineering Reports.

A. The Reports are divided into three general sections: 1) *Executive Summary*; 2) *Engineering Report Discussion*, and 3) *Engineering Report Exhibits.* The *Discussions* section for the Water District can be further divided into twelve subsections: A) Purpose of Report, B) Location of System; C) Description of the Water Systems; D) Water Usage;

E) Growth Projection; F) ADEQ Compliance; G) ADWR Compliance; H) ACC Compliance; I) Water Testing Expenses; J) Depreciation Rates; K) Financing Application (Docket No. W-01689A-11-0401) and L) Other Issues. The *Discussions* section for the Wastewater District can be further divided into eleven subsections: A) Purpose of Report, B) Location of Division; C) Description of the Wastewater System; D) Wastewater Flow; E) Growth; F) ADEQ Compliance; G) ACC Compliance; H) Depreciation Rates; and I) Others.

RECOMMENDATIONS AND CONCLUSIONS

Q. What are Staff's conclusions and recommendations regarding the Company's operations?

A. Staff's conclusions and recommendations regarding the Company's operations are listed below.

Water System

Recommendations:

I. Staff recommends estimated annual water testing costs of $4,637 for the Company's Water Division be used for purposes of the proceeding.

II. Staff recommended average service lives and the resulting depreciation rates are listed by National Association of Regulatory Utility Commissioners' ("NARUC") plant account in Figure 6 in Report DMH-1.

III. Staff recommends approval of the meter and service line installation charges listed under the columns labeled "Staff Recommendation" in Table 6 in Report DMH-1.

IV. Staff recommends that the Company repair the leaks that Staff observed during its field inspection immediately and file documents showing that it has complied within 15 days of the effective date of the Commission's order in this matter.

V. The calculated water loss in water system PWS #02-008 exceeded 42 percent, which far exceeds Staff's recommended 10 percent threshold. In Decision No. 68443, the Commission ordered the Company to reduce its water loss to 10 percent or less in PWS # 02-008 before filing its next rate case. Staff recommends that the Company monitor the water system closely and take action to ensure the water loss is 10 percent or less by December 2014. If the water loss continues to exceed 10 percent, calculated on an annual basis, the Company shall, within 270 days of a decision in this case, file a detailed plan to reduce water loss to 10 percent or less, or prepare a report containing a detailed analysis and explanation demonstrating why a water loss reduction to 10 percent or less is not feasible or cost effective. Staff further recommends that the Company be required to file water loss progress reports semiannually with Docket Control, as a compliance item in this docket. Staff further recommends that the first water loss progress report be filed by June 30, 2013. Staff shall determine that any future rate case filed by the Company shall be insufficient if these items are not properly submitted.

VI. Staff recommends that the Company submit a detailed water loss reduction plan with Docket Control, as a compliance item in this docket before any rate increase recommended in this matter becomes effective.

VII. System PWS # 02-048 and system #02-050 have inadequate storage capacities. In Decision No. 68443, the Commission ordered the Company to resolve the storage deficiencies of PWS #02-048 and PWS #02-050 prior to filing its next rate application.

The Company failed to comply with this order. Staff recommends that the Company correct the water storage deficiencies in System of PWS #02-048 and System of PWS #02-050 before any rate increase recommended in this matter becomes effective.

VIII. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, an affidavit indicating that the water testing referenced in Table 4B in Report DMH-1 has been completed and that the Company is delivering water to customers served by its non-community systems that complies with applicable water quality standards. Staff further recommends that the Company file its affidavit on a quarterly basis with the first affidavit due for the first quarter of 2013 by April 30, 2013. Such quarterly reports shall continue to be filed until the non-community water systems become community water systems.

IX. Staff concludes that the Company's proposed project in the Financing Application for the capital improvements in Well No. 3, Well No. 7 and Well No. 18 and replacing plant items in the distribution system are appropriate and the cost estimates as recommended by Staff and listed in Table 5 in Report DMH-1 are reasonable. However, no "used and useful" determination of the proposed project item was made and no particular treatment should be inferred for rate making or rate base purpose in the future. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, by December 31, 2013, a copy of the ADEQ Approval of Construction for the capital improvements in Well Nos. 3, 7 and 18 projects and fire hydrant replace project.

X. Well No. 16 is not used and useful; Staff recommends all capital improvements associated with Well No. 16 be removed from rate base.

XI. Staff recommends that $255 expense for work done to the wastewater monitoring well be reclassified in wastewater NARUC accounts.

XII. Staff recommends that the Company file with Docket Control, as a compliance item in this docket within 90 days of the effective date of a decision in this proceeding, at least five Best Management Practices ("BMPs") in the form of tariffs that substantially conform to the BMP templates created by Staff for the Commission's review and consideration.

Conclusions:

I. Staff received two compliance status reports from ADEQ dated September 28, 2011 in which ADEQ reported that Clear Springs' community water systems PWS No. 02-008 and PWS No. 02-049 have no major deficiencies and are currently delivering water that meet water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

II. According to ADEQ, PWS No. 02-048, PWS No. 02-050 and PWS No. 02-051 are classified as inactive, non-public water systems based on population served. ADEQ public water system monitoring and reporting requirements and ADEQ operation and maintenance requirements do not apply.

III. The Company is not in any ADWR Active Management Area. Staff received a Compliance Status Report from ADWR for Clear Springs on November 18, 2011. In its report ADWR stated that the Company is compliant with departmental requirements governing water providers and/or community water systems.

IV. Clear Springs has approved cross connection and curtailment tariffs.

V. PWS # 02-008, #02-049 and #02-051 have adequate production and storage capacities to support their existing customer bases.

VI. A check of the Commission's Compliance Section database dated December 5, 2011, indicated that the Company has no ACC delinquent compliance items.

Wastewater System

Recommendations:

I. Staff recommends the Company use depreciation rates as delineated in Figure 6 in Report DMH-2.

II. Staff recommends an annual wastewater testing cost of $2,715 for the Company's Wastewater Division be used for purposes of the proceeding.

III. Staff recommends moving the original cost of pump equipment from Power Generator Equipment Account No. 355 to Pump Equipment Account No. 371 where this expense should have been recorded.

IV. Staff recommends $225 be moved from Account No. 311 (Water) to Account No. 371 (Wastewater).

V. Staff recommends that $495 spent for a Lagoon Expansion Study not be considered used and useful since the studied expansion has not taken place; this expense should be removed from Account No. 354 where it was recorded.

Conclusions:

I. ADEQ regulates the Company's Wastewater Division under Permit No. 100824. Compliance Status Reports issued by ADEQ state that the Company is in full compliance for operation and maintenance, operator certification and discharge permit limits.

II. Staff concludes that the Company has adequate capacity to serve existing customers.

III. A check of the Arizona Corporation Commission Utilities Division Compliance database showed there is currently no delinquent compliance item for the Company.

Q. Does this conclude your Direct Testimony?

A. Yes, it does.

Engineering Report
Clear Springs Utility Company, Inc. – Water Division
Prepared By
Dorothy Hains, P. E.
Docket Nos. WS-01689A-11-0402 (Rates)
Docket Nos. W-01689A-11-0401 (Financing)

June 13, 2012

EXECUTIVE SUMMARY

Recommendations:

1. Arizona Corporation Commission Utilities Division Staff ("Staff") recommends estimated annual water testing costs of $4,637 for Clear Springs Utility Co. – Water Division ("the Company" or "Clear Springs – Water Division"). (See §I and Table 4 for discussion and details.)

2. Staff recommends the depreciation rates by individual National Association of Regulatory Utility Commissioners category, as delineated in Exhibit 6. (See §J and Exhibit 6 for a discussion and a tabulation of the recommended rates.)

3. Staff recommends approval of the meter and service line installation charges listed under the columns labeled "Staff Recommendation" in Table 6. (See §L of report for discussion and details.)

4. Staff recommends that the Company submit a detailed water loss reduction plan with Docket Control, as a compliance item in this docket before any rate increase recommended in this matter becomes effective. (See §D for discussion and details.)

5. Staff recommends that the Company repair the leaks that Staff observed during its field inspection immediately and file documents showing that it has complied within 15 days of the effective date of the Commission's order in this matter. (See §D for discussion and details.)

6. The calculated water loss in water system PWS #02-008 exceeded 42 percent, which far exceeds Staff's recommended 10 percent threshold. In Decision No. 68443, the Commission ordered the Company to reduce its water loss to 10 percent or less in PWS # 02-008 before filing its next rate case. Staff further recommends that the Company monitor the water system closely and take action to ensure the water loss is 10 percent or less by December 2014. If the water loss continues to exceed 10 percent, calculated on

an annual basis, the Company shall, within 270 days of a decision in this case, filed a detailed plan to reduce water loss to 10 percent or less, or prepare a report containing a detailed analysis and explanation demonstrating why a water loss reduction to 10 percent or less is not feasible or cost effective. Staff further recommends that the Company be required to file water loss progress reports semiannually with Docket Control, as a compliance item in this docket. Staff further recommends that the first water loss progress report be filed by June 30, 2013. Staff shall determine that any future rate case filed by the Company shall be insufficient if these items are not properly submitted. (See §D for discussion and details.)

7. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, an affidavit indicating that the water testing referenced in Table 4B has been completed and that the Company is delivering water to customers served by its non-community systems that complies with applicable water quality standards. Staff further recommends that the Company file its affidavit on a quarterly basis with the first affidavit due for the first quarter of 2013 by April 30, 2013. Such quarterly reports shall continue to be filed until the non-community water systems become community water systems. (See §I for discussion and details.)

8. Staff concludes that the Company's proposed project in the Financing Application for the capital improvements in Well No. 3, Well No. 7 and Well No. 18 and replacing plant items in the distribution system are appropriate and the cost estimates as recommended by Staff and listed in Table 5 are reasonable. However, no "used and useful" determination of the proposed project item was made and no particular treatment should be inferred for rate making or rate base purpose in the future. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, by December 31, 2013, a copy of the ADEQ Approval of Construction for the capital improvements in Well Nos. 3, 7 and 18 projects and fire hydrant replace project. (See §K for discussion and details.)

9. Well No. 16 is not used and useful; Staff recommends all capital improvements associated with Well No. 16 be removed from this rate base. (See §L for discussion and details.)

10. Staff recommends that $255 expense for work done to the wastewater monitoring well be reclassified in wastewater NARUC accounts. (See §L for discussion and details.)

11. Staff recommends that the Company file with Docket Control, as a compliance item in this docket within 90 days of the effective date of a decision in this proceeding, at least five BMPs in the form of tariffs that substantially conform to the templates created by Staff for the Commission's review and consideration. (See §K of report for discussion and details.)

12. Systems of PWS # 02-048 and #02-050 have inadequate storage capacities. In Decision No. 68443, the Commission ordered the Company to resolve the storage deficiencies of PWS #02-048 and PWS #02-050 prior to filing its next rate application. The Company

failed to comply with this order. Staff recommends that the Company correct the water storage deficiencies in System of PWS #02-048 and System of PWS #02-050 before any rate increase recommended in this matter becomes effective (See §C of report for discussion and details.)

Conclusions:

1. A check of the Commission's Compliance Section database dated December 5, 2011, indicated that Clear Springs has no ACC delinquent compliance items. (See §H of report for discussion and details.)

2. Clear Springs is not in any ADWR Active Management Area. Staff received a Compliance Status Report from ADWR for Clear Springs on November 18, 2011. In its report ADWR stated that the Company is compliant with departmental requirements governing water providers and/or community water systems. (See §G of report for discussion and details.)

3. Staff received two compliance status reports from ADEQ dated September 28, 2011 in which ADEQ reported that Clear Springs' community water systems PWS No. 02-008 and PWS No. 02-049 have no major deficiencies and are currently delivering water that meet water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4. According to ADEQ, PWS No. 02-048, PWS No. 02-050 and PWS No. 02-051 are classified as inactive, non-public water systems based on population served, However, ADEQ public water system monitoring and reporting requirements and ADEQ operation and maintenance requirements do not apply. (See §F of report for discussion and details.)

4. Clear Springs has approved cross connection and curtailment tariffs. (See §M of report for discussion and details.)

5. Systems of PWS # 02-008, #02-049 and #02-051 have adequate production and storage capacities to support their existing customer bases. (See §C of report for discussion and details.)

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EXHIBITS

ENGINEERING REPORT
CLEAR SPRINGS UTILITY COMPANY, INC. – WATER DIVISION
DOCKET NO. W-01689A-11-0402 (RATES)
DOCKET NO. W-01689A-11-0401 (FINANCING)

A. PURPOSE OF REPORT

This report was prepared in response to the applications filed by Clear Springs Water Company ("Clear Springs" or "Company") with the Arizona Corporation Commission ("ACC" or "the Commission") to increase its water rates.

An inspection of the Company's water system was conducted by Dorothy Hains, Commission Staff Engineer, accompanied by Company Representative, Keith Dojaquez (General Operation Manager), Mathew England (On-site Operator) and Greg Carlson, P. E. and James McMurtrie, P. E. from Greg Carlson Engineering on February 9, 2012.

B. LOCATION OF DIVISION

The Company is located approximately 26 miles west of Willcox near the Sunsites area along Highway 191, in Cochise County. Attached Exhibits 1 and 2 detail the location of the service area in relation to other Commission regulated companies in Cochise County and in the immediate area. The Company serves an area approximately thirty nine square miles in size that includes all or a portion of Sections 4, 9, 10, 22, 23, 26, 27, 28 and 33 of Township 16 South , Range 24 East Sections 29, 30, 31, 32 and 33 of Township 16 South, Range 25 East; Sections 4, 9, 10, 13, 14, 15, 16, 21, 22, 23, 24, 25, 26, 27, 28, 29, 32, 33, 34 and 35 of Township 17 South, Range 24 East; Sections 4, 5, 6, 13, 18, 19, 23, 24, 25, 26, 30, 31 and 35 of Township 17 South, Range 25 East; Sections 1, 3, 4, 5, 10, 11, 12, 14 and 22 of Township 18 South, Range 24 East; Sections 6, 17, 18 of Township 18 South, Range 25 East; Section 16 of Township 17 South Range 26 East; Section 1 of Township 18 South, Range 26 East and Sections 30 and 31 of Township 17 South, Range 27 East and Section 6 of Township 18 South, Range 27 East.

C. DESCRIPTION OF SYSTEM

I. System Description

The Company owns and operates five individual water systems that consist of six active well sites. The Company serves approximately 569 metered customers; the majority of which are residential. Exhibits 3A, 3B and 3C are schematic drawings of the water systems.

A detailed listing of the Company's water system facilities listed by Arizona Department of Environmental Quality ("ADEQ") Public Water System ("PWS") Number follows:

Table 1A Plant Data in Clear Springs Water System (in PWS #02-008)

Active Drinking Water Wells

ADWR No.	Year Drilled	Casing Size (inches)	Well Depth (ft)	Well Meter Size (inches)	Pump (HP)	Pump Yield (GPM)	Location
55-603877 (Well #5)	1964	16	800	4	30	180	Iron Wood/Shadow Mountain Court
55-502128 (Well #18)	1982	16	700	6	120	300	Lansing Rd/Treasure Rd

Active Storage, Pumping (in PWS #02-008)

Location	Structure or equipment	Capacity
Iron Wood/Shadow Mountain Court	Pressure tank	One 5,000 gallon tank
Lansing Rd/Treasure Rd	Booster pump station	Two 20-HP booster pumps
Lansing Rd/Treasure Rd	Storage Tank	One 100,000 gallon tank
Lansing Rd/Treasure Rd	Pressure Tank	One 5,000 gallon tank

Distribution Mains in PWS #02-008 CC&N Area

Diameter (inches)	Material	Length (feet)
2	Galvanized	200
2	polyvinyl chloride ("PVC")	1,036
3	PVC	360
4	PVC	3,339
6	PVC	3,040
8	PVC	180
12	asbestos cement ("AC")	200
3	AC	10,698
4	AC	3,020
6	AC	29,495
8	AC	5,650

Meters in PWS #02-008 CC&N Area

Size (inches)	Quantity
⅝ x ¾	540
¾	5
1	17
1½	7
2	3
3 (Turbo)	1

Inactive Well (in PWS #02-008)

ADWR No.	Year Drilled	Casing Size (inches)	Well Depth (ft)	Well Meter Size (inches)	Pump (HP)	Pump Yield (GPM)	Location
55-604034 (Well #16)	N/A	12	N/A	N/A	N/A	450	Treasure Rd (behind the Office)

Inactive Pumping (in PWS #02-008)

Location	Structure or equipment	Capacity
Treasure Rd (behind the Office)	Pressure Tank	One 5,000 gal

Table 1B Plant Data in Clear Springs System (in PWS #02-048)

Active Drinking Water Wells

ADWR No.	Year Drilled	Casing Size (inches)	Well Depth (ft)	Well Meter Size (inches)	Pump (HP)	Pump Yield (GPM)	Location
55-603879 (Well #3)	1966	6	442	2	5	15	Arbor/ Topoz

Active Storage, Pumping (in PWS #02-048)

Location	Structure or equipment	Capacity
Arbor/ Topoz	Pressure tank	One 85 gallon tank
Arbor/ Topoz	Storage Tank	One 1,200 gallon tank
Arbor/ Topoz	Booster pump station	

Distribution Mains in PWS #02-048 CC&N Area

Diameter (inches)	Material	Length (feet)
2	PVC	1,500

Meters in PWS #02-048 CC&N Area

Size (inches)	Quantity
⅝ x ¾	6

Table 1C Plant Data in Clear Springs System (in PWS #02-049)

Active Drinking Water Wells

ADWR No.	Year Drilled	Casing Size (inches)	Well Depth (ft)	Well Meter Size (inches)	Pump (HP)	Pump Yield (GPM)	Location
55-588414 (Well #6)	2001	8	505	2	7½	40	Central/Euelid

Active Storage, Pumping (in PWS #02-049)

Location	Structure or equipment	Capacity
Central/Euelid	Pressure tank	One 3,000 gallon tank
Central/Euelid	Storage Tank	One 12,500 gallon tank
Central/Euelid	Booster pump station	One 5-HP booster pump

Distribution Mains in PWS #02-049 CC&N Area

Diameter (inches)	Material	Length (feet)
4	PVC	240
6	AC	4,700

Meters in PWS #02-049 CC&N Area

Size (inches)	Quantity
⅝ x ¾	19

Inactive Well (in PWS #02-049)

ADWR No.	Year Drilled	Casing Size (inches)	Well Depth (ft)	Well Meter Size (inches)	Pump (HP)	Pump Yield (GPM)	Location
55-604035 (Old Well #6, capped)	N/A	8/6	N/A	N/A	N/A	100	Central/Euelid

Table 1D Plant Data in Clear Springs System (in PWS #02-050)

Active Drinking Water Wells

ADWR No.	Year Drilled	Casing Size (inches)	Well Depth (ft)	Well Meter Size (inches)	Pump (HP)	Pump Yield (GPM)	Location
55-603880 (Well #7)	1969	6	560	2	3	18	170 Treasure Rd

Active Storage, Pumping (in PWS #02-050)

Location	Structure or equipment	Capacity
170 Treasure Rd	Pressure tank	One 85 gallon tank
170 Treasure Rd	Storage Tank	One 1,000 gallon tank
170 Treasure Rd	Booster pump station	One 5-HP booster pump

Distribution Mains in PWS #02-050 CC&N Area

Diameter (inches)	Material	Length (feet)
6	AC	1,800

Meters in PWS #02-050 CC&N Area

Size (inches)	Quantity
⅝ x ¾	9

Table 1E Plant Data in Clear Springs System (in PWS #02-051)

Active Drinking Water Wells

ADWR No.	Year Drilled	Casing Size (inches)	Well Depth (ft)	Well Meter Size (inches)	Pump (HP)	Pump Yield (GPM)	Location
55-603882 (Well #9)	1970	8/6	675	2	5	25	March/Skyline

Active Storage, Pumping (in PWS #02-051)

Location	Structure or equipment	Capacity
March/Skyline	Pressure tank	One 1,000 gallon tank
March/Skyline	Storage Tank	One 12,500 gallon tank
March/Skyline	Booster pump station	One 5-HP booster pump

Distribution Mains in PWS #02-051 CC&N Area

Diameter (inches)	Material	Length (feet)
6	AC	4,200

II. System Analysis

Systems PWS # 02-008, #02-049 and #02-051 have adequate production and storage capacities to support their existing customer bases. Systems PWS # 02-048 and #02-050 have inadequate storage capacities. In Decision No. 68443 (dated February 2, 2006), the Commission ordered the Company to resolve the storage deficiencies of PWS #02-048 and PWS #02-050 prior to filing its next rate application. The Company failed to comply with this order. Staff recommends that the Company correct the water storage deficiencies in System of PWS #02-048 and System of PWS #02-050 before any rate increase recommended in this matter becomes effective.

D. WATER USAGE

Tables 2A through 2F summarize water usage in the Company's CC&N area. Exhibits 4A through 4B are graphs that show water consumption data in gallons per day per connection for each individual system for the period of January 2010 through December 2010.

Table 2A Water Usage in Clear Springs Water (PWS #02-008) CC&N Area

Month	Number of Customers	Water Sold (in gallons)	Water pumped (in gallons)	Water purchased (in gallons)	Daily Average (in gpd/customer)
Jan 10	480	1,984,000	3,919,000	0	133
Feb 10	484	2,172,000	4,395,000	0	160
Mar 10	484	1,954,000	3,527,000	0	130
Apr 10	491	2,891,000	4,049,000	0	196
May 10	493	3,266,000	4,741,000	0	214
Jun 10	496	4,944,000	7,761,000	0	332
Jul 10	497	4,171,000	6,632,000	0	271
Aug 10	501	3,047,000	6,151,000	0	196
Sep 10	503	3,211,000	5,835,000	0	213
Oct 10	512	2,981,000	5,969,000	0	188
Nov 10	519	2,611,000	4,923,000	0	168
Dec 10	527	2,174,000	4,085,000	0	133
total		35,406,000	61,987,000	0	
Average					200

The calculated water loss in PWS #02-008 was 42.88 % during the test year (see discussion below).

Table 2B Water Usage in Clear Springs Water (PWS #02-048) CC&N Area

Month	Number of Customers	Water Sold (in gallons)	Water pumped (in gallons)	Water purchased (in gallons)	Daily Average (in gpd/customer)
Jan 10	5	12,000	17,000	0	77
Feb 10	5	17,000	23,000	0	121
Mar 10	5	16,000	22,000	0	103
Apr 10	5	26,000	30,000	0	173
May 10	5	37,000	40,000	0	239
Jun 10	6	90,000	89,000	0	500
Jul 10	6	63,000	68,000	0	339
Aug 10	6	44,000	50,000	0	237
Sep 10	6	37,000	39,000	0	206
Oct 10	6	39,000	43,000	0	210
Nov 10	6	31,000	34,000	0	172
Dec 10	6	21,000	25,000	0	113
total		433,000	480,000	0	
Average					216

The calculated water loss in PWS #02-048 was 9.79 % during the test year.

Table 2C Water Usage in Clear Springs Water (PWS #02-049) CC&N Area

Month	Number of Customers	Water Sold (in gallons)	Water pumped (in gallons)	Water purchased (in gallons)	Daily Average (in gpd/customer)
Jan 10	17	56,000	45,000	0	106
Feb 10	17	63,000	61,000	0	132
Mar 10	17	53,000	56,000	0	101
Apr 10	19	110,000	108,000	0	193
May 10	19	151,000	149,000	0	256
Jun 10	19	237,000	232,000	0	416
Jul 10	19	209,000	210,000	0	355
Aug 10	19	140,000	147,000	0	238
Sep 10	19	153,000	143,000	0	268
Oct 10	19	120,000	117,000	0	204
Nov 10	19	78,000	79,000	0	137
Dec 10	19	70,000	80,000	0	119
total		1,440,000	1,427,000	0	
Average					219

The calculated water loss in PWS #02-049 was negative 0.91% during the test year. This result calls into question the validity of the water use data reported for this system.

Table 2D Water Usage in Clear Springs Water (PWS #02-050) CC&N Area

Month	Number of Customers	Water Sold (in gallons)	Water pumped (in gallons)	Water purchased (in gallons)	Daily Average (in gpd/customer)
Jan 10	7	18,000	18,000	0	83
Feb 10	7	17,000	18,000	0	87
Mar 10	7	16,000	17,000	0	74
Apr 10	7	25,000	25,000	0	119
May 10	7	26,000	27,000	0	120
Jun 10	7	52,000	51,000	0	248
Jul 10	7	38,000	38,000	0	175
Aug 10	7	34,000	35,000	0	157
Sep 10	7	38,000	36,000	0	181
Oct 10	7	16,000	15,000	0	74
Nov 10	7	13,000	16,000	0	76
Dec 10	7	13,000	13,000	0	60
total		306,000	309,000	0	
Average					127

The calculated water loss in PWS #02-050 was 0.97 % during the test year.

Table 2E Water Usage in Clear Springs Water (PWS #02-051) CC&N Area

Month	Number of Customers	Water Sold (in gallons)	Water pumped (in gallons)	Water purchased (in gallons)	Daily Average (in gpd/customer)
Jan 10	10	64,000	65,000	0	206
Feb 10	10	61,000	57,000	0	218
Mar 10	10	39,000	42,000	0	126
Apr 10	10	73,000	78,000	0	243
May 10	10	90,000	96,000	0	290
Jun 10	10	182,000	188,000	0	607
Jul 10	10	111,000	113,000	0	358
Aug 10	10	53,000	65,000	0	171
Sep 10	10	91,000	94,000	0	303
Oct 10	10	88,000	92,000	0	284
Nov 10	10	71,000	76,000	0	237
Dec 10	10	49,000	54,000	0	158
total		972,000	1,020,000	0	
Average					277

The calculated water loss in PWS #02-051 was 4.71 % during the test year.

I Water Sold

Based on information provided by the Company, the calculated highest use is 607 gpd per customer in PWS # 02-051 and the lowest is 60 gpd per customer in PWS #02-050. The highest total monthly use occurred in June, when total of 4,944,000 gallons were sold to 493 customers

in PWS #02-008. The lowest total monthly use occurred in January, when 12,000 gallons were sold to 5 customers in PWS #02-048.

II. Non-account Water

Non-account water should be 10 percent or less and never more than 15 percent. It is important to be able to reconcile the difference between the water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing, etc. The calculated water loss in water system PWS #02-008 exceeded 42 percent, which far exceeds Staff's recommended 10 percent threshold.

In Decision No. 68443, the Commission ordered the Company to reduce its water loss to 10 percent or less in PWS # 02-008 before filing its next rate case, the Company had reported a 14.5% water loss during the 2004 test year. To comply with the water loss reporting requirement in Decision No. 68443, the Company filed its first and only water loss report on July 20, 2006 (see attached Exhibit 7). In the latter report, the Company reported a 14.5% calculated water loss which appeared to be no worse than the loss reported earlier for 2004. The Company indicated that a second water loss report and a physical construction plan to address its water loss would be filed within 180 days, however the Company failed to submit a second water loss report or a construction plan and thus failed to comply with Decision No. 68443.

During its field inspection Staff observed a severe leak from a 5,000 gallon pressure tank at Well Site # 18 and a wellhead leak at Well Site # 5. In response to Staff's Deficiency Letter in the pending case, the Company indicated that its excessive water loss was due to (1) leaks in transmission and distribution lines; (2) old inaccurate meters that run slow and fail to register the total gallons of water being delivered to the customer and (3) leaky fire hydrants. In its defense the Company stated that it did not have sufficient revenue to implement a leak detection and infrastructure replacement program. However, the Company failed to notify the Commission of its financial situation or to seek other remedies available to it. The Company has allowed its water loss to increase significantly since the last rate case Staff therefore recommends that appropriate test year expense adjustments be made to offset the higher power supply and chemical costs the Company has incurred.

Staff recommends that the Company submit a detailed water loss reduction plan with Docket Control, as a compliance item in this docket before any rate increase recommended in this matter becomes effective. Staff further recommends that the Company repair the leaks Staff observed during its field inspection immediately and file documents showing that it has complied within 15 days of the effective date of the Commission's order in this matter. Staff further recommends that the Company monitor the water system closely and take action to ensure the water loss is 10 percent or less by December 2014. If the water loss continues to exceed 10 percent, calculated on an annual basis, the Company shall, within 270 days of a decision in this case, file a detailed plan to reduce water loss to 10 percent or less, or prepare a report containing a detailed analysis and explanation demonstrating why a water loss reduction to 10 percent or less is not feasible or cost effective. Staff further recommends that the Company be required to file water loss progress reports semiannually with Docket Control, as a compliance item in this docket. Staff

further recommends that the first water loss progress report be filed by June 30, 2013. Staff shall determine that any future rate case filed by the Company shall be insufficient if these items are not properly submitted.

E. GROWTH PROJECTION

Table 3 summarizes actual and projected growth in Clear Springs CC&N area. Exhibits 5A through 5C are graphs that show actual and projected growth in each individual system.

Table 3 Actual and Projected Growth in the Company

Year	Nos. of Customers					
	PWS #02-008	PWS #02-048	PWS #02-049	PWS #02-050	PWS #02-051	
2004	536	3	16	N/A	7	Reported
2005	543	3	16	6	7	Reported
2006	549	4	17	6	8	Reported
2007	552	6	17	8	9	Reported
2008	566	6	17	8	N/A	Reported
2009	538	4	17	7	10	Reported
2010	527	6	19	7	10	Reported
2011	542	6	19	8	12	Estimated
2012	541	7	19	8	12	Estimated
2013	539	7	19	8	13	Estimated
2014	539	8	20	9	13	Estimated

I. *PWS No. 02-008*

Based on the service meter data contained in the Company's annual reports, the number of customers declined from 566 at the end of 2008 to 527 at the end of 2010, which results in a negative growth rate of less than one customer per year for the period.

II. *PWS No. 02-048*

The number of customers increased from 3 at the end of 2004 to 6 at the end of 2010, which results in a positive growth rate of less than one customer per year for the period.

III. *PWS No. 02-049*

The number of customers increased from 16 at the end of 2004 to 19 at the end of 2010, which results in a positive growth rate of less than one customer per year for the period.

IV. *PWS No. 02-050*

The number of customers increased from 6 at the end of 2004 to 7 at the end of 2010, which results in a positive growth rate of less than one customer per year for the period.

V. PWS No. 02-051

The number of customers increased from 7 at the end of 2004 to 10 at the end of 2010, which results in a positive growth rate of less than one customer per year for the period.

F. ADEQ COMPLIANCE

Staff received two compliance status reports from ADEQ dated September 28, 2011, in which ADEQ reported that Clear Springs' community water systems PWS No. 02-008 and PWS No. 02-049 have no major deficiencies and are currently delivering water that meet water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

According to ADEQ PWS No. 02-048, PWS No. 02-050 and PWS No. 02-051 are classified as inactive, non-public water systems based on population served, however ADEQ public water system monitoring and reporting requirements and ADEQ operation and maintenance requirements do not apply.

G. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

Clear Springs is not in any ADWR Active Management Area. Staff received a Compliance Status Report from ADWR for Clear Springs on November 18, 2011. In its report ADWR stated that the Company is compliant with departmental requirements governing water providers and/or community water systems.

H. ACC COMPLIANCE

A check of the Commission's Compliance Section database dated December 5, 2011, indicated that Clear Springs has no ACC delinquent compliance items.

I. WATER TESTING EXPENSES

I. Community Water Systems (ADEQ Monitoring and Reporting Requirements Apply)

Clear Springs is subject to mandatory participation in the ADEQ Monitoring Assistance Program ("MAP"). Staff calculated the testing costs based on the following assumptions:

1. MAP will do baseline testing on everything except copper, lead, bacteria, and disinfection by-products.

2. The estimated water testing expenses represent a minimum cost based on no "hits" other than lead and copper, and assume compositing of well samples. If any constituents were found, then the testing costs would dramatically increase. ADEQ testing is performed in 3-year compliance cycles. Therefore, monitoring costs are estimated for a 3-year compliance period and then presented on an

annualized basis.

3. MAP fees were calculated from the ADEQ MAP invoice for calendar year 2011.

4. All monitoring expenses are based on Staff's best knowledge of lab costs and methodology and one point of entry.

Table 4A shows the estimated annual monitoring expense, based on participation in the MAP program.

Table 4A Water Testing Cost for Systems (PWS #s 02-008 & 02-049)

Monitoring (Tests per 3 years, unless noted.)	Cost per test	No. of tests per 3 years		Total 3 year cost ($)		Annual[1] Cost ($)
PWS # 02-xxx		**008**	**049**	**008**	**049**	
Bacteriological – monthly	$10	72	36	720	360	360
Inorganics (& secondary)	$300	MAP	MAP	MAP	MAP	MAP
Radiochemical – (1/ 4 yr)	$60	MAP	MAP	MAP	MAP	MAP
IOC's, SOC's, VOC's	$2,805	MAP	MAP	MAP	MAP	MAP
Nitrites	$25	MAP	MAP	MAP	MAP	MAP
Nitrates – annual	$25	MAP	MAP	MAP	MAP	MAP
Asbestos – per 9 years	$180	MAP	MAP	MAP	MAP	MAP
Lead & Copper – annual	$30	30	15	900	450	450
Maximum chlorine residual levels	$0[2]	72	36	0	0	0
TTHM/HHAs	$305	6	3	1,830	915	915
MAP fees (annual)						2,026.58[3]
Total						**3,752**

Note
1. Represents the total water testing expenses for PWS #s 02-008 & 02-049.
2. Per the Response to Staff's Data Request # DH4.6, the Company stated that this test is performed on-site and samples are not sent to a laboratory for testing.
3. The 2011 MAP invoice for System (PWS #02-008) was $1,727.75 and invoice for System (PWS #02-049) was $298.83.

II. Non-community Water Systems (ADEQ Monitoring and Reporting Requirements Do Not Apply)

Even though ADEQ monitoring and reporting requirements no not apply to the Company's non-community water systems (PWS #s 02-048, 02-050 and 02-051) Commission Rule R14-2-407.A states the Company is responsible for delivering potable water to its customers. Table 4B lists Staff's recommended water testing and monitoring expense for the Company's non-community systems.

Table 4B Water Testing Costs for Clear Springs Systems (PWS #s 02-048, 02-050 & 02-051)

Monitoring (Tests per 3 years, unless noted.)	Cost per test	No. of tests per three year period			Total cost per three year period ($)			Annual Cost ($)[1]
PWS #02-		**048**	**050**	**051**	**048**	**050**	**051**	
Bacteriological – monthly[2]	$10	36	36	36	360	360	360	360
nitrites – annual[2]	$25	3	3	3	75	75	75	75
Lead & Copper – annual[2]	$30	15	15	15	450	450	450	450
Total								**885**

Note
1. Represents the total water testing expenses for PWS #s 02-048, 02-050 & 02-051.
2. Staff recommends using ADEQ monitoring and testing frequencies.

Water testing expenses should be adjusted to the annual expense amount shown in Tables 4A and 4B, which totals **$4,637**.

To ensure compliance with Commission Rule R14-2-407.A, Staff recommends that Clear Springs file with Docket Control, as a compliance item in this docket, an affidavit indicating that the water testing referenced in Table 4B has been completed and that the Company is delivering water to customers served by its non-community systems that complies with applicable water quality standards. Staff further recommends that the Company file this affidavit each January with the first affidavit due no later than January 31, 2013. Such quarterly reports shall continue to be filed until the non-community water systems become community water systems.

J. DEPRECIATION RATES

Staff has developed typical and customary depreciation rates within the range of anticipated equipment life. These rates are presented in Exhibit 6, and should be used to calculate the annual depreciation expense for the Company. Staff recommends the depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category, as delineated in Exhibit 6.

K. FINANCING APPLICATION (DOCKET NO. W-01689A-11-0401)

On November 3, 2011, the Company filed a financing application requesting Commission authorization to borrow $510,993.70 from Arizona Department of Water Infrastructure Finance Authority to upgrade plant items at Well Sites 3, 7 and 18, and to purchase a generator and replace broken gate valves in its systems. On May 1, 2012 the Company provided Staff with a revised scope of work associated with its financing. Staff's review and analysis is based on the revised scope of work filed in May.

Staff concludes that the estimated costs listed below with Staff's adjustments are reasonable.

Table 5 Finance Related Capital Costs

Work of Scope Descriptions	Co.'s Estimated Costs ($)	Staff Adjusted Costs ($)	Staff Recommended Costs ($)
I. Well #3 & Well #7 Storage Improvements			
Well #3			
One 5,000 gallon storage tank	3,780		3,780
40' of steel ring around storage tank	604		604
Two 5-HPBerkeley booster pump ($2,611/unit)	5,222		5,222
Plumbing, facility piping (3 days labor (@$572/day), equipment rental (@ $865/day) total of 1,437/day)	4,311		4,311
New materials (pipes, valves & fittings)	5,000		5,000
New electric control panel, wires, etc.	2,500		2,500
Electric rack	1,200		1,200
8" concrete slab under booster pump station (100 square feet) & 6% inflation	742		742
ABC bedding material under the tank (3 cubic yards @ $106/cubic yard)	318		318
Two 44 gallon bladder tank ($700/unit)	1,400		1,400
subtotal	**25,077**		**25,077**
Well #7			
One 5,000 gallon storage tank	3,780		3,780
40' of steel ring around storage tank	604		604
ABC bedding material under the tank (2½ cubic yards)	265		265
One 44 gallon bladder tank (@ $700/unit)	700		700
Plumbing, facility piping (3 days labor (@$572/day), equipment rental (@ $865/day) total of 1,437/day)	4,311		4,311
New materials (pipes, valves & fittings)	2,500		2,500
New electric materials	2,500		2,500
Electric rack	1,200		1,200
One 3-HP booster pump	2,611		2,611
Removal of existing horizontal tank	1,500		1,500
Add 38' of chain link fence (@ $37.5/ft)	1,425		1,425
subtotal	**21,396**		**21,396**
Total	**46,473**		**46,473**

Permit fee	3,200		3,200
Engineering design fee (10%)	4,647		4,647
Administration & legal fee (5%)	2,324		2,324
Project management & inspection (10%)	4,647		4,647
Contingency (15%)	6,971		6,971
Sale Tax (4.60%)	2,138		2,138
Total (Project I)	**70,400**		**70,400**
Project II. Fire Hydrant Replacement			
22 fire hydrants (@ $4,125/unit including $1,650/unit and labor cost of $2,475/unit)	90,750	(35,750)[1]	55,000
subtotal	**90,750**		**55,000**
Administration & legal fee (5%)	4,538	(1,787)	2,751
Project management & inspection (10%)	9,075	(3,575)	5,500
Contingency (15%)	13,613	(5,362)	8,251
Sale Tax (4.60%)	4,175	(1,645)	3,070
Total (Project II)	**122,151**	**(48,119)**	**74,072**
Project III. Repair Plant Items in Well #18			
Grout existing storage tank (1,710 cubic feet of grout material @ $86.5/cubic feet)	147,915		147,915
One new 5,000 gallon pressure tank (@24,740/unit)	24,740	(24,740)[2]	0
Repair well pump (@ $35,000/unit)	35,000		35,000
subtotal	**207,655**		**182,915**
Administration & legal fee (5%)	10,383	(1,237)	9,146
Project management & inspection (10%)	20,766	(2,474)	18,292
Contingency (15%)	31,148	(3,711)	27,437
Sale Tax (4.60%)	9,552	(2,677)	6,875
Total (Project III)	**279,504**	**(34,839)**	**244,665**
Project IV. Replace Broken Isolation Gate Valves			
Flomatic Resilient wedge three 6" gate valves (@ $2,250/unit)	6,750	(680)[3]	6,070
Flomatic Resilient wedge one 8" gate valve (@ $3,500/unit)	3,500	(295)[3]	3,205
Flomatic Resilient wedge one 10" gate valve (@ $4,625/unit)	4,625	(256)[3]	4,369
subtotal	**14,875**		**13,644**
Administration & legal fee (5%)	744	(62)	682
Project management & inspection (10%)	1,488	(123)	1,365
Sale Tax (4.60%)	684.25	(57)	627
Total (Project III)	**17,791**	**(1,473)**	**10,855**
Project V. Replace and/or Upgrade Distribution Services			
Replace exist 56'of 1-inch poly service line along Justin (in PWS #02-008) (@ $54/ft)	3,024		3,024
Replace exist 80'of 1-inch poly service line along Ford St (in PWS #02-008) (@ $54/ft)	4,320		4,320
Replace exist 60'of 1-inch poly service line along	3,240		3,240

Treasure Rd/Christmas Tree (in PWS #02-008) (@ $54/ft)			
Replace exist 26'of 1-inch poly service line along Treasure Rd (in PWS #02-008) (@ $54/ft)	1,404		1,404
subtotal	**11,988**		**11,988**
Survey	3,500		3,500
Administration & legal fee (5%)	599		599
Engineering (10%)	1,199		1,199
Project management & inspection (10%)	1,199		1,199
Contingency (15%)	1,798		1,798
Sale Tax (4.60%)	551		551
Total (Project V)	**20,835**		**20,835**
TOTAL	**510,678**	**(84,431)**	**426,249**

Notes:
1. Based on Staff's experience, fire hydrant installation including material and labor can vary from $1,500 per hydrant to $2,500 per hydrant. Staff adjusted the fire hydrant installation cost to $2,500 per hydrant.
2. The Company has an unused 5,000 gallon pressure tank stored at Well Site16. Since Well Site16 is disconnected from the water system and there is no well pump motor and/or power source at Well Site 16 Staff recommends the Company move the 5,000 gallon pressure tank at Well Site 16 Site to Well Site 18.
3. Per the Flomatic Valves website, the Flomatic Resilient 6" valve lists for $2,023.35 per valve, theFlomatic Resilient 8" valve lists for $3,204.60 per valve and the Flomatic Resilient 10" valve lists for $4,369.05 per valve.

Staff concludes that the proposed capital improvements at Well Sites 3, 7 and 18 and the valve replacements and other distribution system improvements listed in the table above are appropriate and the cost estimates are reasonable. However, no "used and useful" determination of the proposed project item was made and no particular treatment should be inferred for rate making or rate base purpose in the future.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket, by December 31, 2013, a copy of the ADEQ Approval of Construction ("AOC") for the capital improvements to be financed as discussed above.

L. OTHER ISSUES

I. Service Line and Meter Installation Charges

The Company is proposing to revise its meter and service line installation charges. These charges are refundable advances and the Company's proposed charges are within Staff's experience of what are reasonable and customary charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, separate service line and meter charges have been developed by Staff using the combined charge proposed by the Company. Staff recommends approval of the meter and service line installation charges listed under the columns labeled "Staff Recommendation" in Table 6.

Table 6 Service Line and Meter Installation Charges

Meter Size	Current Meter & Service Line Installation Charges	Proposed Service Line installation Charge	Proposed Meter installation Charge	Proposed Total Cost	Staff Recommendation (Service Line installation charge)	Staff Recommendation (Meter installation charge)	Staff Recommended total charges
5/8 x 3/4-inch	$550	$445	$155	$600	$445	$155	$600
3/4-inch	$550	$445	$255	$700	$445	$255	$700
1-inch	$650	$495	$315	$810	$495	$315	$810
1½-inch	$875	$550	$525	$1,075	$550	$525	$1,075
2-inch (Turbine)	$1,400	$830	$1,045	$1,875	$830	$1,045	$1,875
2-inch (Compound)	N/A	$830	$1,890	$2,720	$830	$1,890	$2,720
3-inch (Turbine)	$1,900	$1,045	$1,670	$2,715	$1,045	$1,670	$2,715
3-inch (Compound	N/A	$1,165	$2,545	$3,710	$1,165	$2,545	$3,710
4-inch (Turbine)	$3,200	$1,490	$2,670	$4,160	$1,490	$2,670	$4,160
4-inch (Compound	N/A	$1,670	$3,645	$5,315	$1,670	$3,645	$5,315
6-inch (Turbine)	$5,800	$2,210	$5,025	$7,235	$2,210	$5,025	$7,235
6-inch (Compound	N/A	$2,330	$6,920	$9,250	$2,330	$6,920	$9,250
Over 6-inch	N/A	N/A	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost

II. Field Inspection Findings

a. Not Used And Useful Plant Items in Well No. 16

Well No. 16 has been disconnected from its water system. There is no power to this site and an existing 5,000 gallon pressure tank is sitting unused. The 5,000 gallon pressure tank, an existing control panel and well turbine pump, were installed in 2005 and 2006 at this site, are not used and useful. All expenses and capital improvement costs related to Well No. 16 after 2005 should not be considered used and useful to the Company's provision of service[1].

b. Well No. 5

The Company had to replace the well pump at Well Site 5 in December 2011. Well No. 5 is a major water production well, when Well 5 is down, the system will not have adequate production

1 All identified invoices related to this subject had been given to Mr. Michlik to calculate the proposed new rate.

and storage capacities to serve existing customers. Based on the Company's response to Staff Data Request 4.5, the Company provided an invoice of $11,849.15 for this work which Staff finds reasonable.

III. *Reclassification*

a. *Work for Monitoring Well Pump*

The Company mistakenly posted $225 for work done to a wastewater monitoring well by D&M Well Service in 2010 in Account No. 311 Pumping Equipment (Water). The $225 should be moved from Account No. 311 (Water) to Account No. 371 (Wastewater).

IV. *Curtailment Tariff*

The Company has an approved Curtailment Tariff.

V. *Cross Connection or Backflow Prevention Tariff*

The Company has an approved Cross Connection & Backflow Tariff.

VI. *Best Management Practices ("BMPs") Tariff*

a. Background

In 2008, ADWR added a new regulatory program for the ADWR Third Management Plan for AMAs. The new program, called Modified Non-Per Capita Conservation Program ("Modified NPCCP"), addresses large municipal water providers (cities, towns and private water companies serving more than 250 acre-feet per year) and was developed in conjunction with stakeholders from all AMAs. Participation in the program is required for all large municipal water providers that do not have a Designation of Assured Water Supply and that are not regulated as a large untreated water provider or an institutional provider.

The Modified NPCCP is a performance-based program that requires participating providers to implement water conservation measures that result in water use efficiency in their service areas. A water provider regulated under the program must implement a required Public Education Program and choose one or more additional BMPs based on its size, as defined by its total number of water service connections. The provider must select the additional BMPs from the list included in the Modified NPCCP Program. The BMPs are a mix of technical, policy, and information conservation efforts.

Although the implementation of the Modified NPCCP is required of large municipal water providers within an AMA, the Commission has adopted the BMPs for implementation by large and by Commission regulated small and large water companies.

b. Recommendations

Staff recommends that the Company file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least five BMPs in the form of tariffs that substantially conform to the templates created by Staff for Commission's review and consideration. The templates created by Staff are available on the Commission's website at http://www.azcc.gov/Divisions/Utilities/forms.asp .

Staff further recommends that a maximum of three BMPs may come from the "Public Awareness/Public Relations" or "Education and Training" categories. The Company may request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application.

EXHIBIT 1

Clear Springs Water Division Certificate Service Area

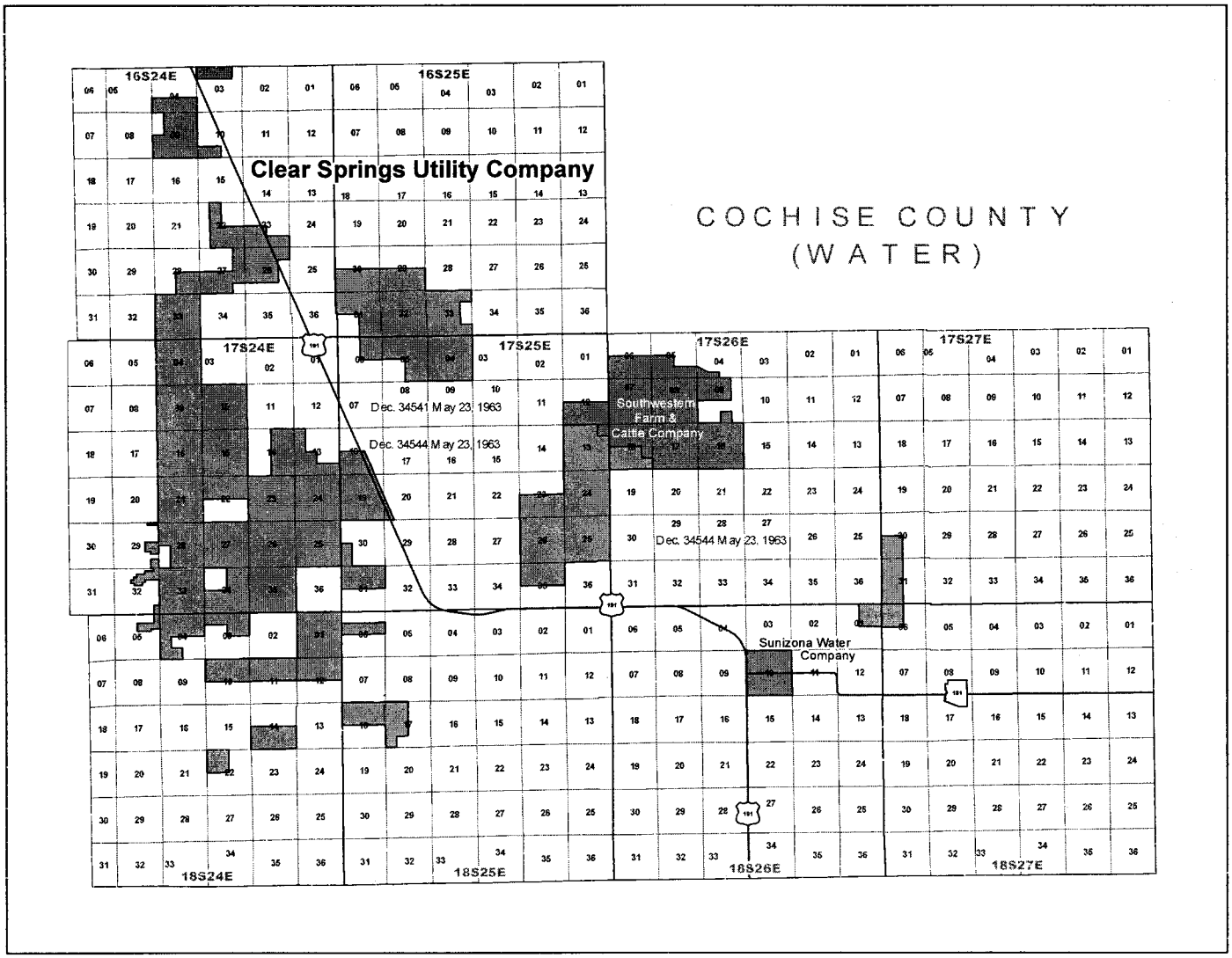

EXHIBIT 2.

LOCATION OF CLEAR SPRINGS WATER DIVISION SERVICE AREA

COCHISE COUNTY - WATER

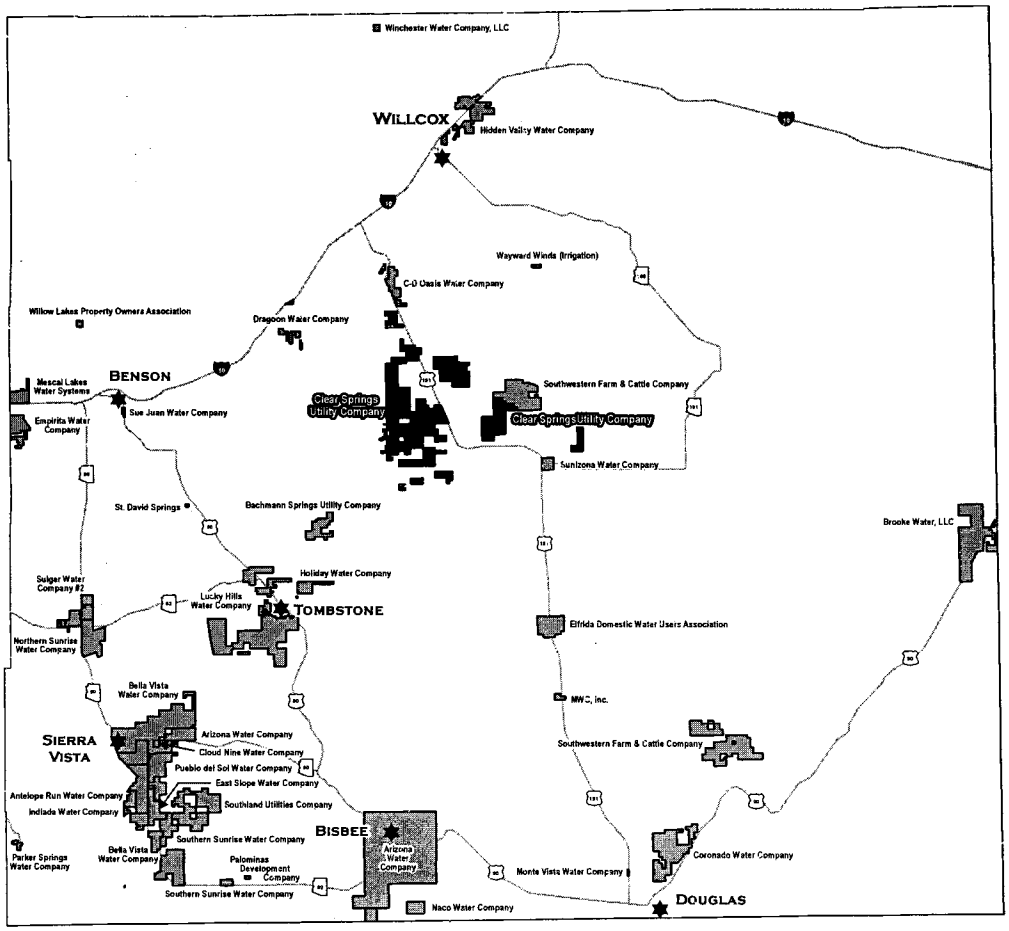

EXHIBIT 3A

SYSTEMATIC DRAWING

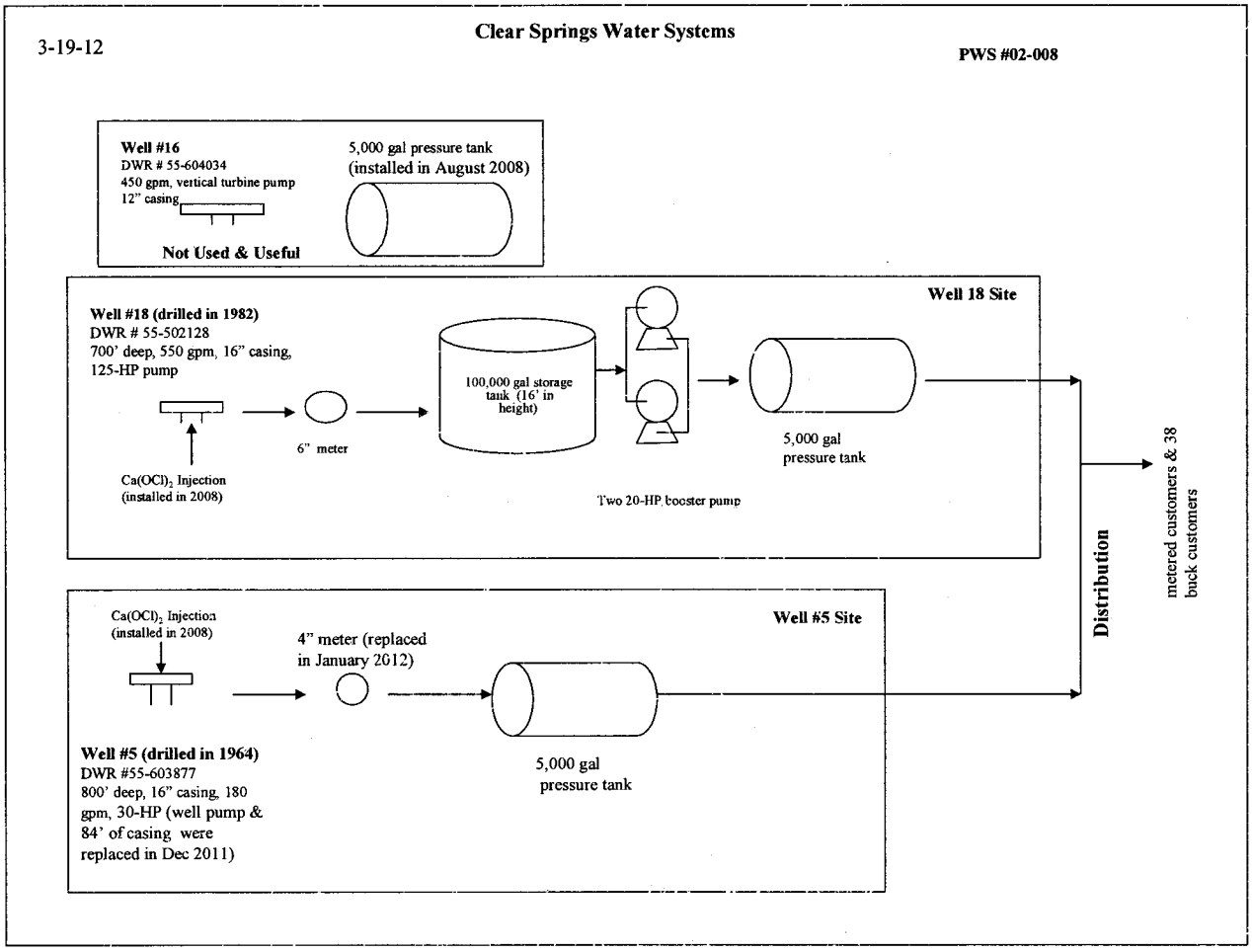

EXHIBIT 3B

SYSTEMATIC DRAWING

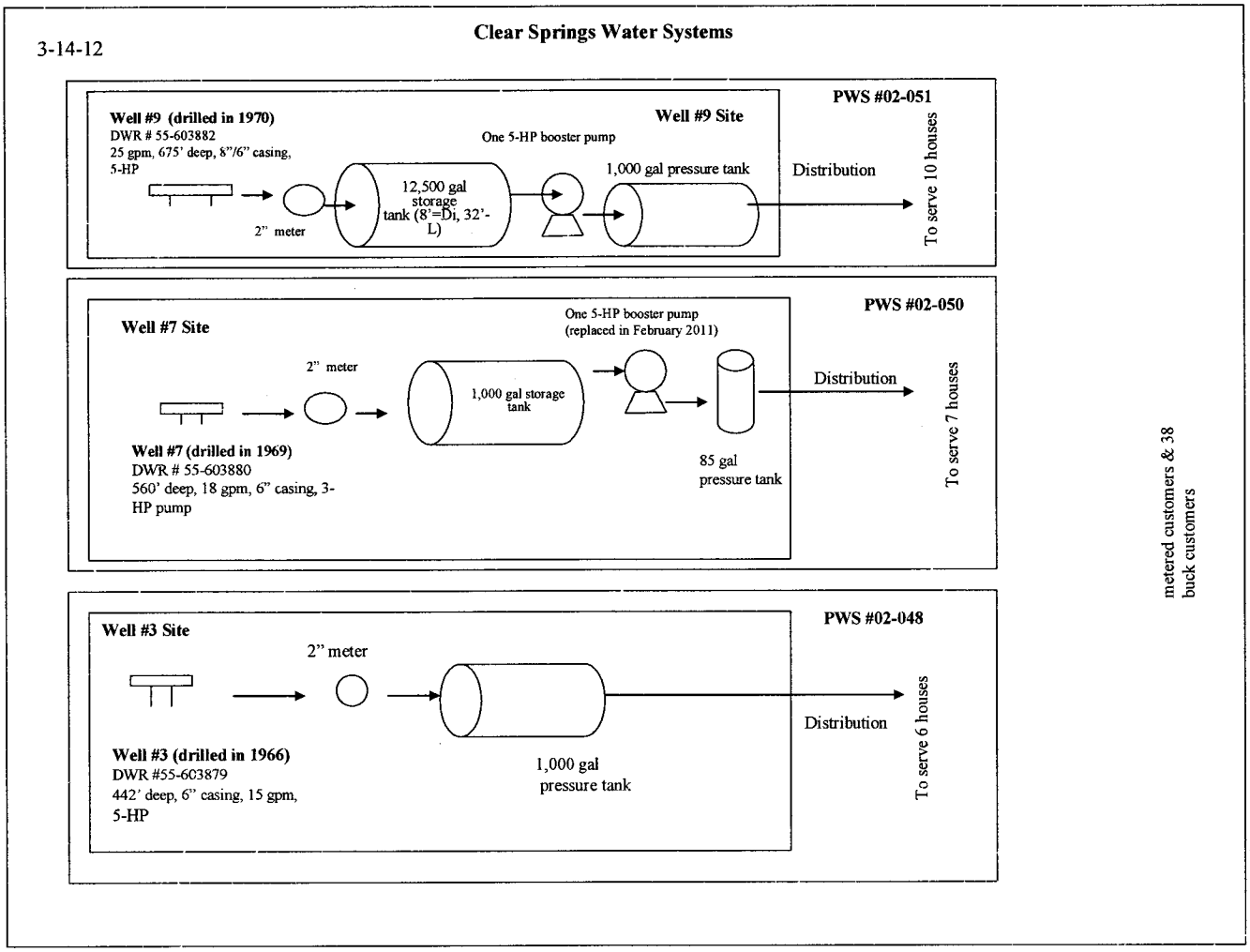

EXHIBIT 3C

SYSTEMATIC DRAWING

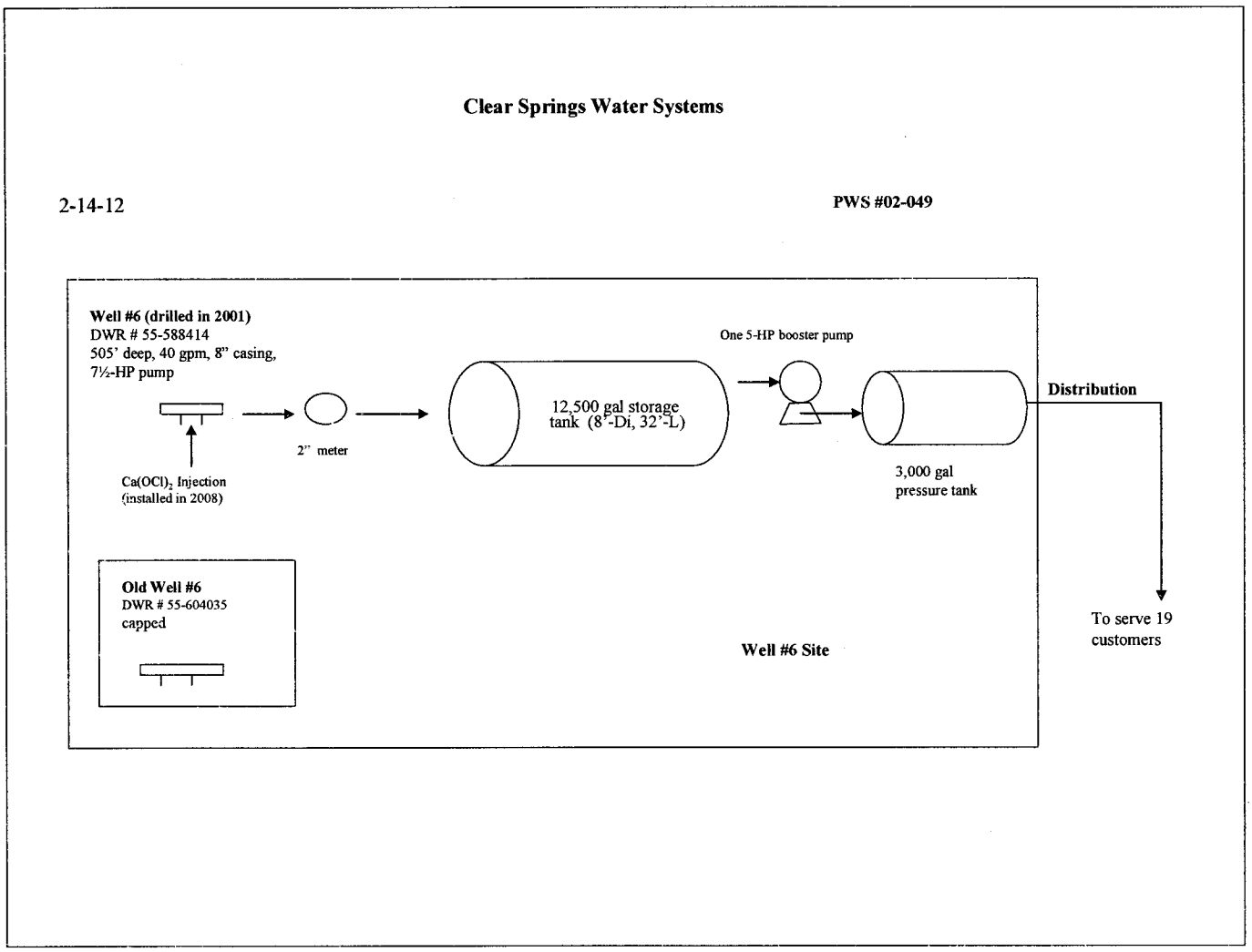

EXHIBIT 4A

WATER USAGE IN CLEAR SPRINGS WATER DIVISION SERVICE AREA

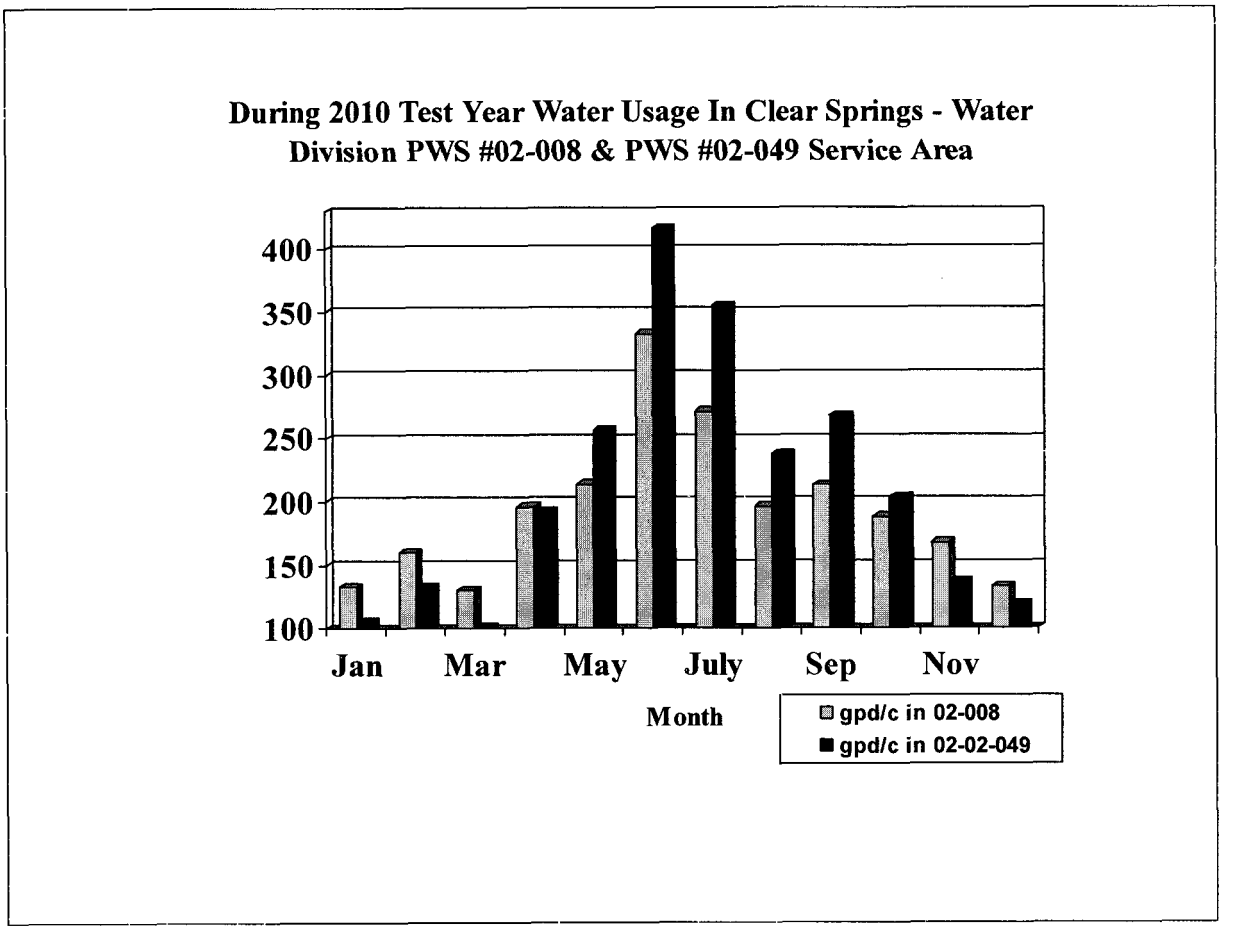

EXHIBIT 4B

WATER USAGE IN CLEAR SPRINGS WATER DIVISION SERVICE AREA

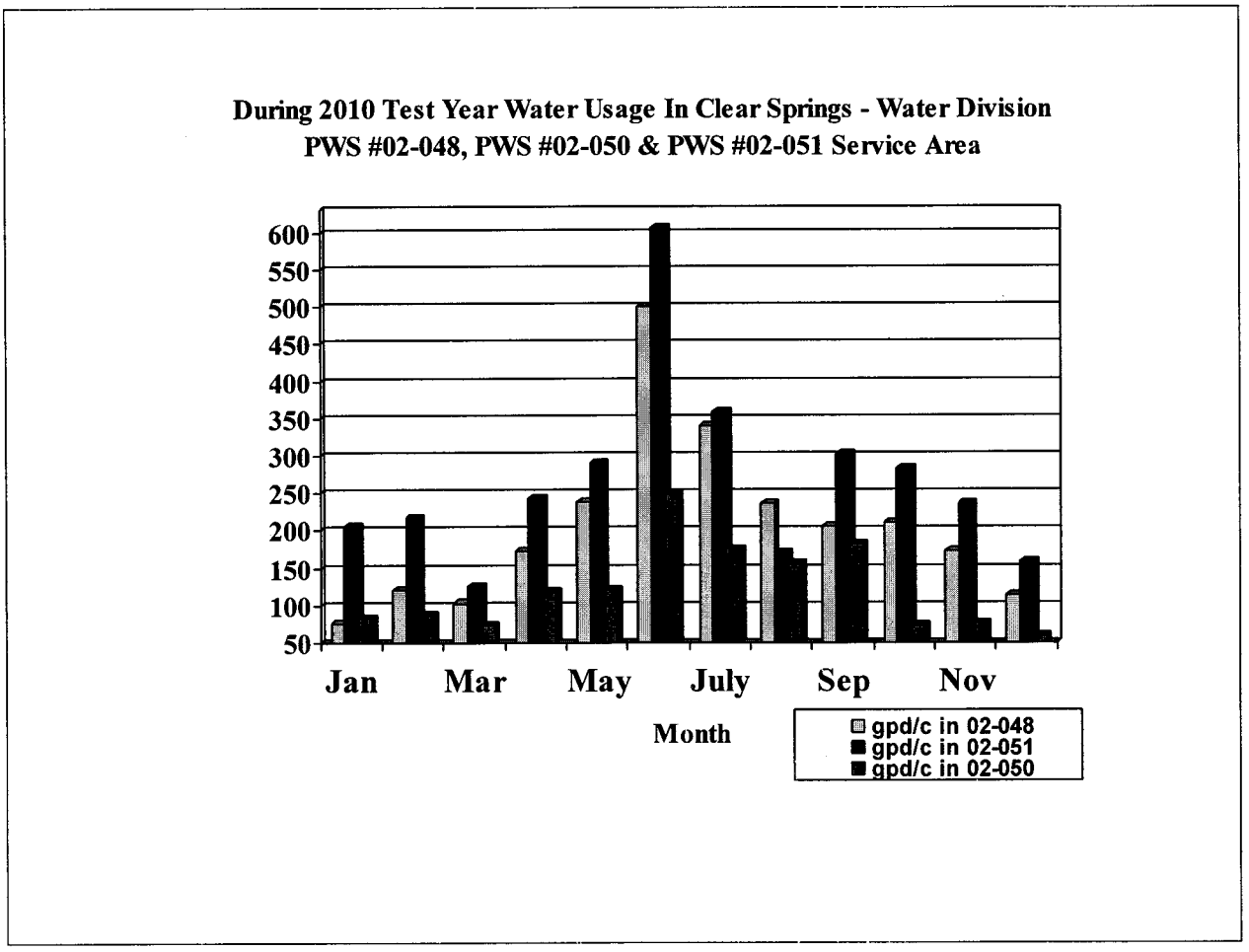

EXHIBIT 5A
ACTUAL AND PROJECTED GROWTH IN CLEAR SPRINGS WATER DIVISION SERVICE AREA

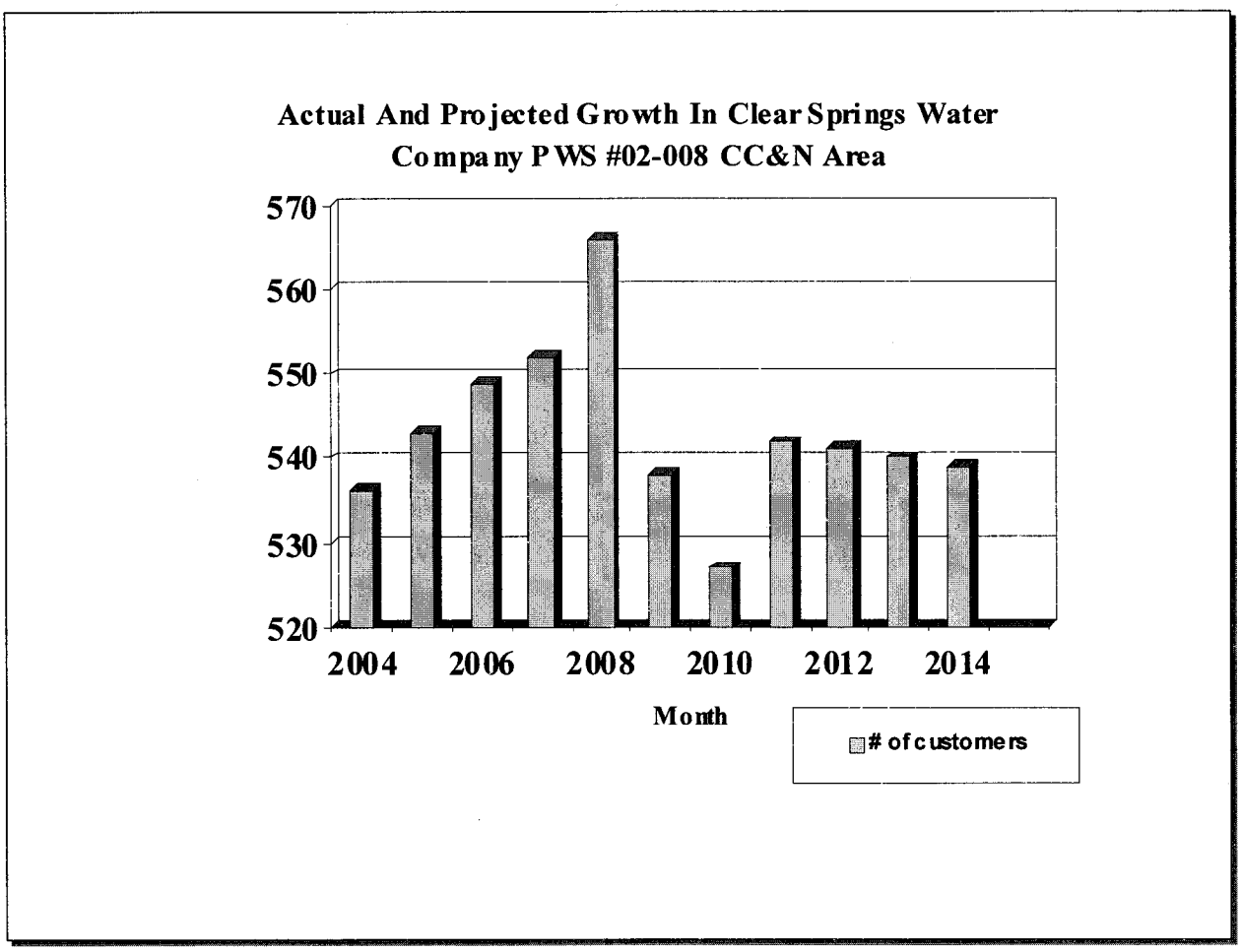

EXHIBIT 5B
ACTUAL AND PROJECTED GROWTH IN CLEAR SPRINGS WATER DIVISION SERVICE AREA

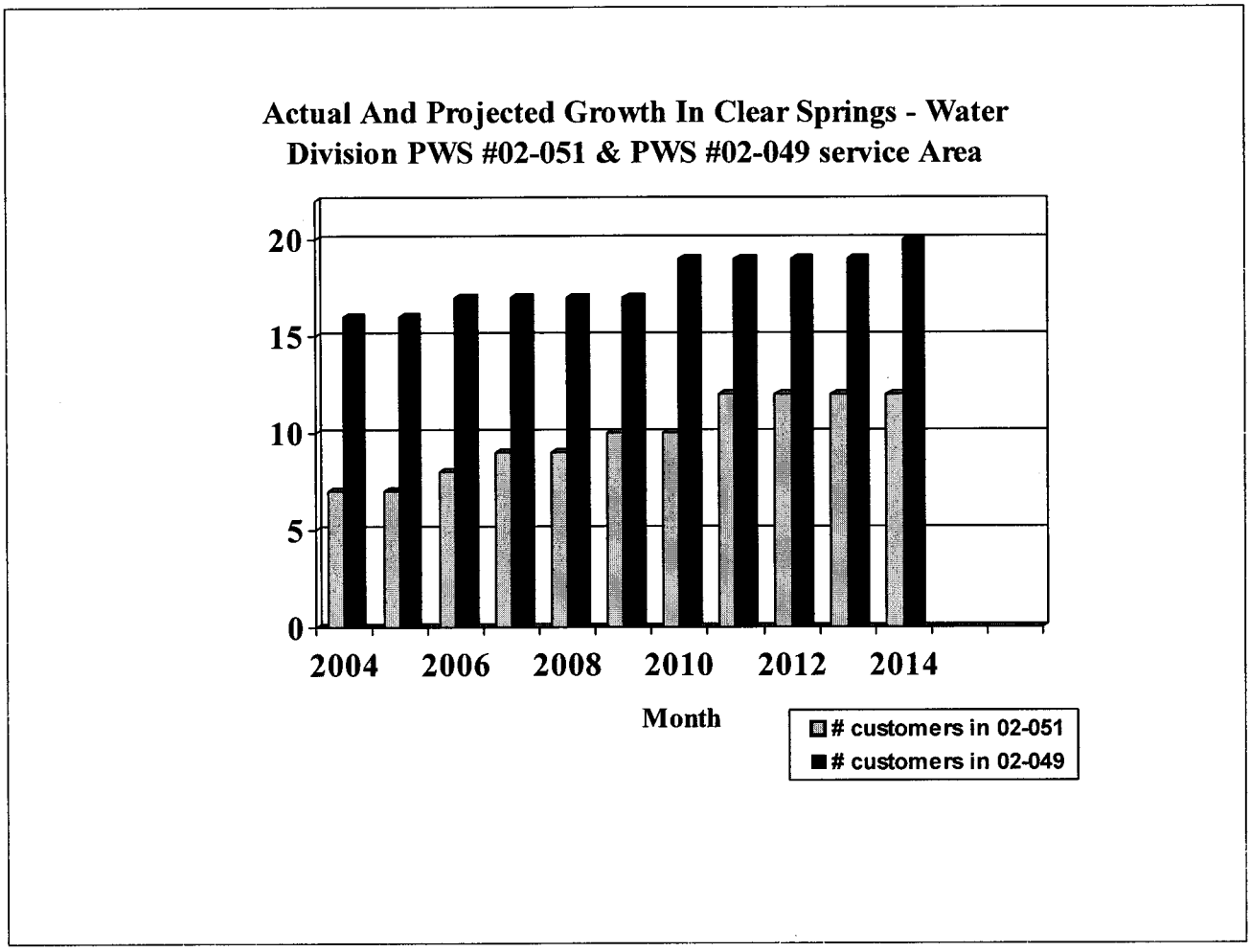

EXHIBIT 5C
ACTUAL AND PROJECTED GROWTH IN CLEAR SPRINGS WATER DIVISION SERVICE AREA

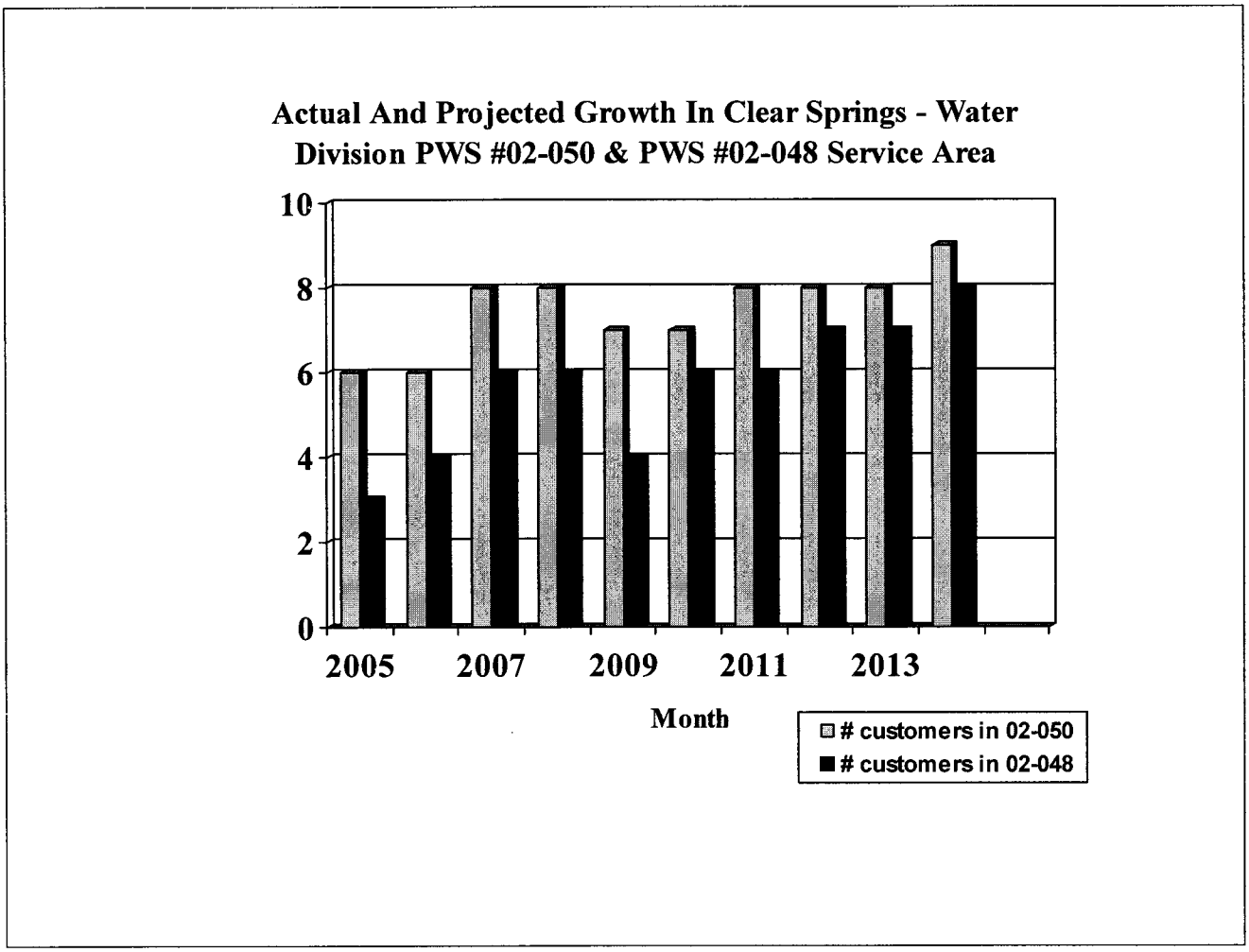

Exhibit 6

Depreciation Rates (Clear Springs – Water Division)

Acct. No.	Depreciable Plant	Approved Rate (%) (Decision # 68443)	Proposed Rate (%)	Staff Recommended Rate (%)
304	Structures & Improvements	3.33	n/a	3.33
305	Collecting & Impounding Reservoirs	2.50	n/a	2.50
306	Lake, River, Canal Intakes	2.50	n/a	2.50
307	Wells & Springs	3.33	n/a	3.33
308	Infiltration Galleries	6.67	n/a	6.67
309	Raw Water Supply Mains	2.00	n/a	2.00
310	Power Generation Equipment	5.00	n/a	5.00
311	Pumping Equipment	12.5	n/a	12.5
320	Water Treatment Equipment			
320.1	Water Treatment Plants	3.33	n/a	3.33
320.2	Solution Chemical Feeders	20.0	n/a	20.0
330	Distribution Reservoirs & Standpipes			
330.1	Storage Tanks	2.22	n/a	2.22
330.2	Pressure Tanks	5.00	n/a	5.00
331	Transmission & Distribution Mains	2.00	n/a	2.00
333	Services	3.33	n/a	3.33
334	Meters	8.33	n/a	8.33
335	Hydrants	2.00	n/a	2.00
336	Backflow Prevention Devices	6.67	n/a	6.67
339	Other Plant & Misc Equipment	6.67	n/a	6.67
340	Office Furniture & Equipment	6.67	n/a	6.67
340.1	Computers & Software	20.00	n/a	20.00
341	Transportation Equipment	20.00	n/a	20.00
342	Stores Equipment	4.00	n/a	4.00
343	Tools, Shop & Garage Equipment	5.00	n/a	5.00
344	Laboratory Equipment	10.00	n/a	10.00
345	Power Operated Equipment	5.00	n/a	5.00
346	Communication Equipment	10.00	n/a	10.00
347	Miscellaneous Equipment	10.00	n/a	10.00
348	Other Tangible Plant	----	----	----

EXHIBIT 7

ORIGINAL

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CLEAR SPRINGS UTILITY COMPANY, INC.
PO BOX 85160
TUCSON, ARIZONA 85754
520-623-5172
FAX 520-792-0377

July 20, 2006

Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Re: Docket #W-01689A-05-0629, Decision #68443 - Compliance Item

In regard to the above referenced Docket number we submit the following as ordered as a compliance item on Page 15, line 1 through 4 of Decision #68443

Statement:

It is further Ordered that Clear Springs Utility Company, Inc. shall file with the Commission a water loss report no later than 180 days after the effective date of this order. This report shall detail how the Company will work to address the water loss issue and what steps the Company is taking to decrease water loss on their system.

Response: 5/19/06 - 6/21/06

Water Loss Report - 7,359,500 (Master Meter) - 6,292,530 (Metered Sales) = 1,066,970 (Difference) / 7,359,500 (Master Meter Amount) x 100 = 14.50% (% Loss)

The steps that will be taken to prevent water loss will be in the form of new construction upgrades to the system. Upgrades are scheduled within the next eighteen months.

Regards,

Bonnie O'Connor, Sec. Treas

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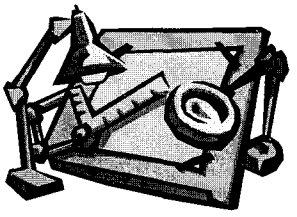

Engineering Report for Arizona-Clear Springs Utility Company, Inc., Wastewater Division (Rates)
Docket No. WS-01689A-11-0402
By Dorothy Hains
June 13, 2012

EXECUTIVE SUMMARY

CONCLUSIONS

1. Arizona Department of Environmental Quality ("ADEQ") regulates the Clear Springs Utility Company, Wastewater Division ("Company") under Permit No. 100824. Compliance Status Reports issued by ADEQ state that the Company is in full compliance for operation and maintenance, operator certification and discharge permit limits. (See §F of the report for discussion and details.).

2. Staff concludes that the Company has adequate capacity to serve existing customers. (See § D of the report for discussion and details.)

3. A check of the Arizona Corporation Commission Utilities Division Compliance database showed there is currently no delinquent compliance item for the Company. (See § G of the report for discussion and details.)

RECOMMENDATIONS

1. It is recommended that the Company use depreciation rates as delineated in Figure 6. (See § H and Figure 6 of the report for discussion and details.)

2. Staff recommends an annual wastewater testing cost of $2,715 for the Company. (See § I of the report for discussion and details.)

3. Staff recommends moving the original cost of pump equipment from Power Generator Equipment Account No. 355 to Pump Equipment Account No. 371 where this expense should have been recorded. (See § I of the report for discussion and details.)

4. Staff recommends $225 be moved from Account No. 311 (Water) to Account No. 371 (Wastewater). (See § H of the report for discussion and details.)

5. Staff recommends that $495 spent for a Lagoon Expansion Study not be considered used and useful since the studied expansion has not taken place, this expense should be removed from Account No. 354 where it was recorded. (See § I of the report for discussion and details.)

TABLE OF CONTENTS

PAGE

A. PURPOSE OF REPORT

This report was prepared in response to the application filed by Clear Springs Utility Company, Inc. – Wastewater Division ("Clear Springs" or "Company") with the Arizona Corporation Commission ("ACC" or "the Commission") to increase its wastewater rates.

An inspection of the Company's wastewater system was conducted by Dorothy Hains, Commission Staff Engineer, accompanied by Company Representative, Mathew England (On-site Operator) on February 28, 2012.

B. LOCATION OF DIVISION

The Company is located approximately 26 miles west of Willcox along Highway 191, Cochise County. Figures 1 and 2 detail the location of the system in relation to other Commission regulated companies in Cochise County and in the immediate area. The Company serves an area approximately one and one-quarter square miles in size in Sections 18, 19 and 20 of Township 17 South, Range 25 East.

C. DESCRIPTION OF THE WASTEWATER SYSTEM

The wastewater system consists of a sewer collection system,[1] an inflow lift station, and a lagoon wastewater treatment system with 300,000 gallons per day ("GPD") treatment capacity. Final effluent is disposed of in a lined pond for evaporation. Figure 3 is a schematic drawing of the wastewater system with a detailed facilities listing in Table 1 below.

1. Wastewater Treatment and Effluent Disposal

Raw sewage is disposed of in a clay lined, five-foot deep lagoon system with three ponds equipped with aerators. Pond Nos. 1 and 2 are primary wastewater treatment ponds that provide some degree of biological treatment. Ponds 1 and 2 are equipped with an aerator to increase the dissolved oxygen level and increase the biological treatment and pollutant removal process. The partially treated effluent from either Pond 1 or 2 can be discharged into Pond No. 3 for final disposal, evaporation and percolation. The Company can dispose of the final treated effluent from Pond No. 3 in Pond No. 4 via an overflow pipeline.

[1] Sewage is collected from 372 customers in the Sunsites Village Subdivision.

Table 1 Plant Data
Lift Station ("LS")

	Location	No. Pumps	Pump (in HP per pump)	Capacity (in GPM per pump)	Wet Well Capacity (in gallons)
Inflow LS	Adjacent to the treatment plant	2	7½	500	2,000

Force Mains

Size (in inches)	Material	Length (in feet)
8	Asbestos Cement ("AC") Pipe	1,200

Collection Mains

Size (in inches)	Material	Length (in feet)
6	AC	1,225
6	PVC	3,730
8	AC	24,200
8	clay	56,000
12	AC	3,000

Manholes & Cleanouts

Type	Quantity
Standard Manhole	160
Cleanouts	11

Services

Size (in inches)	Material	Length (in feet)
4	AC	386

D. WASTEWATER FLOW

Table 2 lists wastewater flow data for Clear Springs during the test year. Figure 4 provides a graphic illustration of the wastewater flow data listed in Table 2. The average daily flow was 131 GPD per customer. The highest monthly, average daily flow of 69,391 GPD occurred in June and the highest peak day flow of 411,486 GPD occurred in August. It is typical to see the highest peak day flow occur in the winter. According to

the Company, this peak day flow occurred when summer storm runoff infiltrated the collection system.

Table 2 Wastewater Flow Clear Springs Sewer System Certified Service Area

Month	Number of Customers	Total Volumes of Treated Wastewater (gallons/month)	Average Daily Flow (GPD)	Peak Day flow (gallons)	Average Daily Flow (GPD/c)	Peak Day flow (GPD/c)
Jan 10	369	1,164,920	37,578	181,900	102	493
Feb 10	368	1,071,960	38,284	178,632	104	485
Mar 10	368	1,404,380	45,303	169,264	123	460
Apr 10	369	1,221,616	40,721	136,820	110	371
May 10	368	1,310,796	42,284	174,028	115	473
Jun 10	366	2,081,716	69,391	199,508	190	545
Jul 10	367	1,948,204	62,845	214,620	171	585
Aug 10	363	2,131,340	68,753	411,486	189	1,134
Sep 10	362	2,065,864	68,862	300,164	190	829
Oct 10	369	1,288,380	41,561	332,412	113	901
Nov 10	368	1,028,000	34,267	223,456	93	607
Dec 10	372	863,236	27,846	186,848	75	502
Avg					131	615

Staff concludes that the Clear Springs Wastewater Treatment System has adequate capacity to serve existing customers based on the highest monthly, average daily flow.

E. GROWTH

Based on the service connection data in the Company's annual reports, the Clear Springs sewer service area had very slow to almost no annual growth from 2004 to 2010. The following table summarizes actual growth in the Clear Springs sewer service area.

Table 3 Actual and Projected Growth in Clear Springs Sewer Service Area

Year	Nos. of Customers	
1999	336	Reported
2000	336	Reported
2001	347	Reported
2002	350	Reported
2003	359	Reported
2004	369	Reported
2005	375	Reported
2006	380	Reported
2007	382	Reported
2008	382	Reported
2009	372	Reported
2010	369	Reported

F. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE

ADEQ regulates the Clear Springs wastewater system under Wastewater Inventory number 100824 and Aquifer Protection Permit ("APP") number 14810. Per the January 10, 2012, Compliance Status Reports issued by ADEQ, the Clear Springs wastewater system is in full compliance with ADEQ requirements for operation and maintenance, operator certification and discharge permit limits.

G. ACC COMPLIANCE

A check of the Commission Utilities Division Compliance database showed there is currently no delinquent compliance item for the Company.

H. DEPRECIATION RATES

It is recommended that the Company use depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category. Staff has developed typical and customary depreciation rates within the range of anticipated equipment life. These rates, by NARUC category, are presented in Figure 6. It is recommended that the Company use the depreciation rates in Exhibit 6.

I. OTHER ISSUES

1. Chemical Testing Expenses

The Company reported an annual water testing expense of zero dollars. Based on existing APP monitoring and reporting requirements, Staff estimated minimum annual water testing expense for the Company to be $2,715. Staff concludes that its annual testing cost of $2,715 is reasonable and should be used for purposes of this proceeding. (See Table 6 - Wastewater Testing Cost for Clear Springs Wastewater Treatment Plant – APP # P100824)

Table 6 Wastewater Testing Cost per Permit Monitoring Requirement (for Clear Springs WWTP – APP # P100824)

	Cost per test	No. of tests per year	Annual Cost
Total Coliform – monthly	$25	12	$300
Total Nitrogen Nitrate/Nitrite as N – monthly Total Kjeldahl Nitrogen - monthly	 $20 $35	12	$660
Antimony – annually	$15	1	$15
Arsenic – annually	$15	1	$15
Barium – annually	$15	1	$15
Beryllium – annually	$15	1	$15
Cadmium – annually	$15	1	$15
Chromium – annually	$15	1	$15
Fluoride - annually	$20	1	$20
Cyanide – annually	$60	1	$60
Lead – annually	$15	1	$15
Mercury – annually	$45	1	$45
Nickel – annually	$15	1	$15
Selenium – annually	$15	1	$15
Thallium – annually	$15	1	$15
Volatile Organic Compound – annually including Benzene, Carbon Tetrachloride, o-Dichlorobenzene, para-Dichlorobenzene, 1, 2 - Dichlorobenzene, 1,1 - Dichloroethylene, cis 1, 2- Dichloroethylene, trans 1, 2 - Dichloroethylene,, Dichloromethane; 1, 2 – Dichloropropane, Ethyl benzene, monochlorobenzene, styrene, Tetrachloroethylene, Toluene, total Trihalomethanes, 1, 1, 1 – Trichloroethane, 1, 2, 4 – Trichlorobenzene, 1, 1, 2 – Trichloroethane, Trichloroethylene, Vinyle Chloride, total Xylenes	$175	1	$175
Pesticides – annually Alachlor, Altrazine, Carbonfuran, Chlordane, DBCP, 2, 4 – D, Dinoseb, Diquat' Endothall, Endrin, EDB, Glyphosate, Heptachlor, Geptachlor Expoxide, Lindane, Methoxychlor, Oxamyl, Picioram, Simazine, Toxaphene, Silvex	$1,260	1	$1,260
Metal digestion - annually	$30	1	$30
Total			**$2,715**

2. Reclassification

NARUC Account No. 355

Account No. 355 for Power Generator Equipment should contain zero dollars. The Company incorrectly listed pump equipment expenses in Account No. 355. Staff recommends moving the original cost of this pump equipment to Account No. 371 where this expense should have been recorded.

Work for Monitoring Well Pump

The Company mistakenly posted $225 for work done to a wastewater monitoring well by D&M Well Service in 2010 in Account No. 311 Pumping Equipment (Water). The $225 should be moved from Account No. 311 (Water) to Account No. 371 (Wastewater).

NARUC Account No. 354 (Structures & Improvement)

The Company included $495 in 2009 in Account No. 354 (Structures & Improvement) for a study to expand the Company's lagoon. The lagoon has not been expanded therefore, the study is not used and useful and $495 should be removed from Account No. 354 for purposes of this rate proceeding.

FIGURES

Figure 1

CLEAR SPRINGS WASTEWATER DIVISION CERTIFICATED AREA

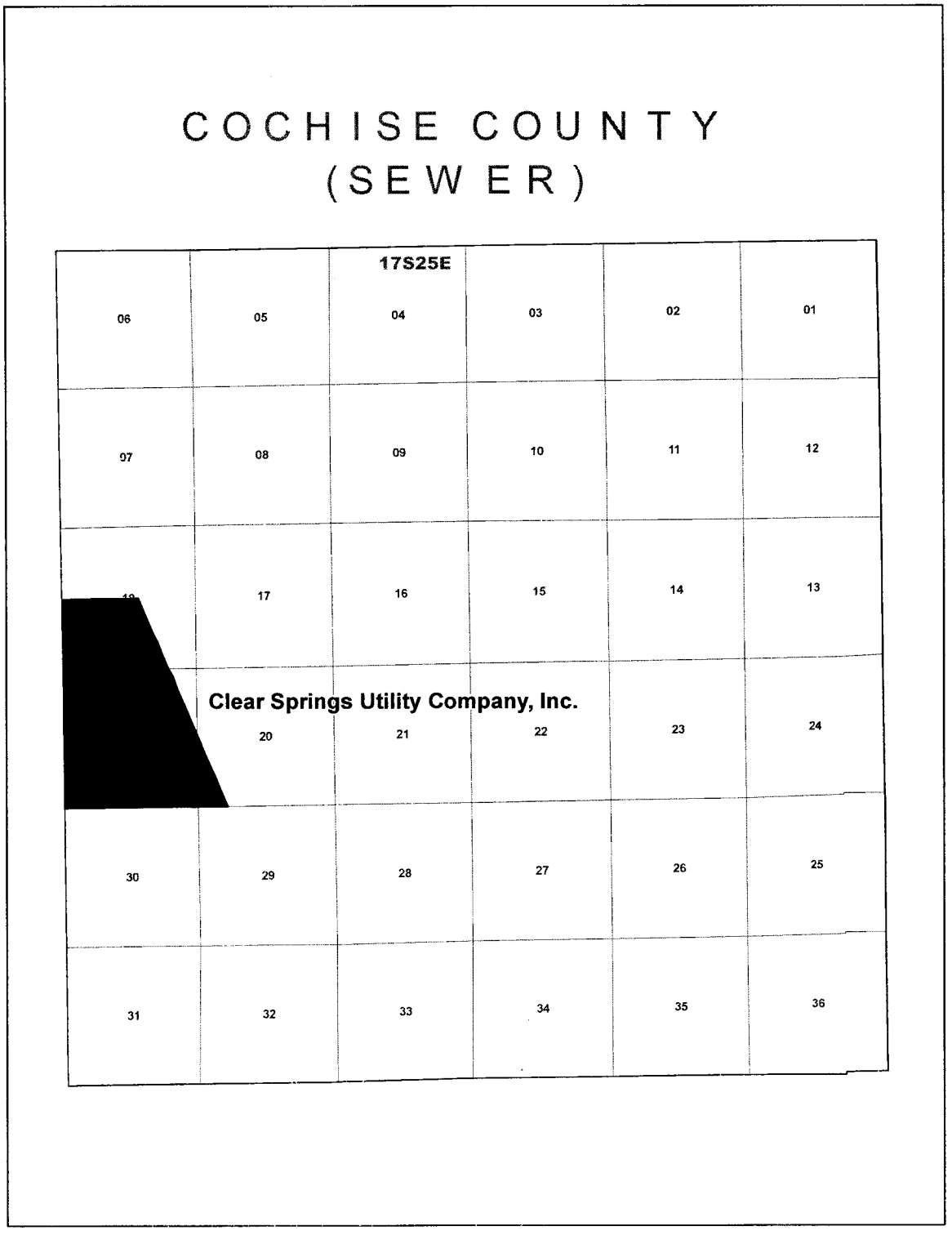

Figure 2

LOCATION OF CLEAR SPRINGS WASTEWATER DIVISION

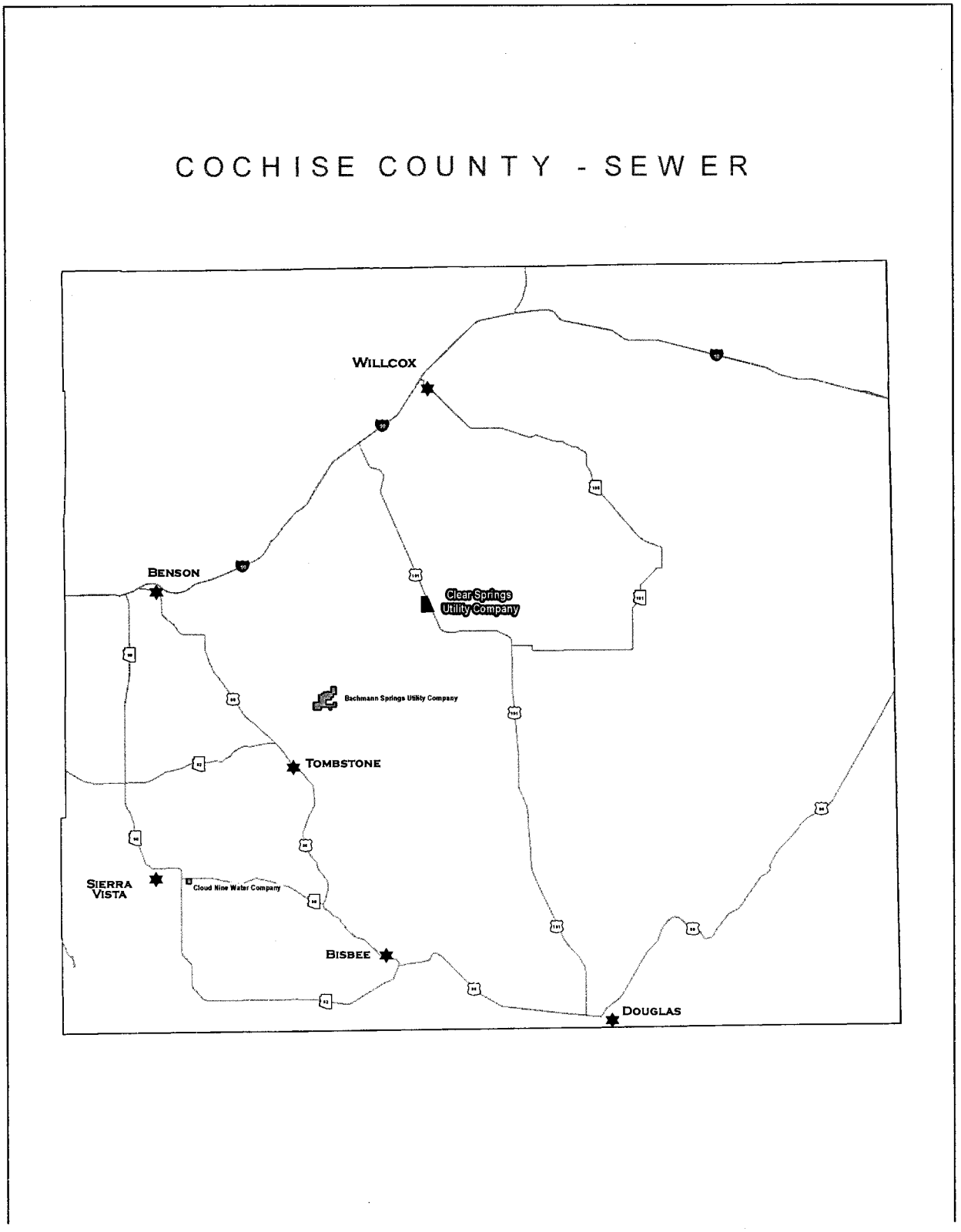

FIGURE 3

CLEAR SPRINGS WASTEWATER SYSTEMATIC FLOW DIAGRAM

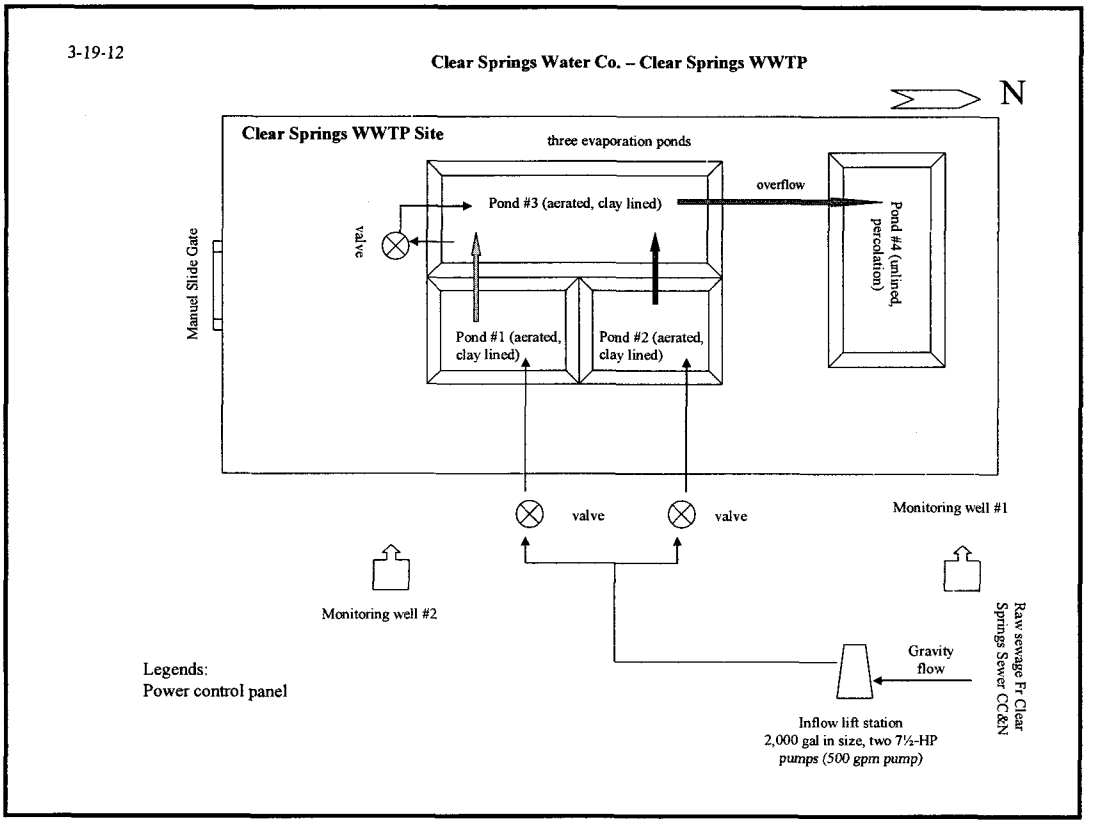

FIGURE 4

WASTEWATER FLOW FROM CLEAR SPRINGS SEWER SERVICE AREA

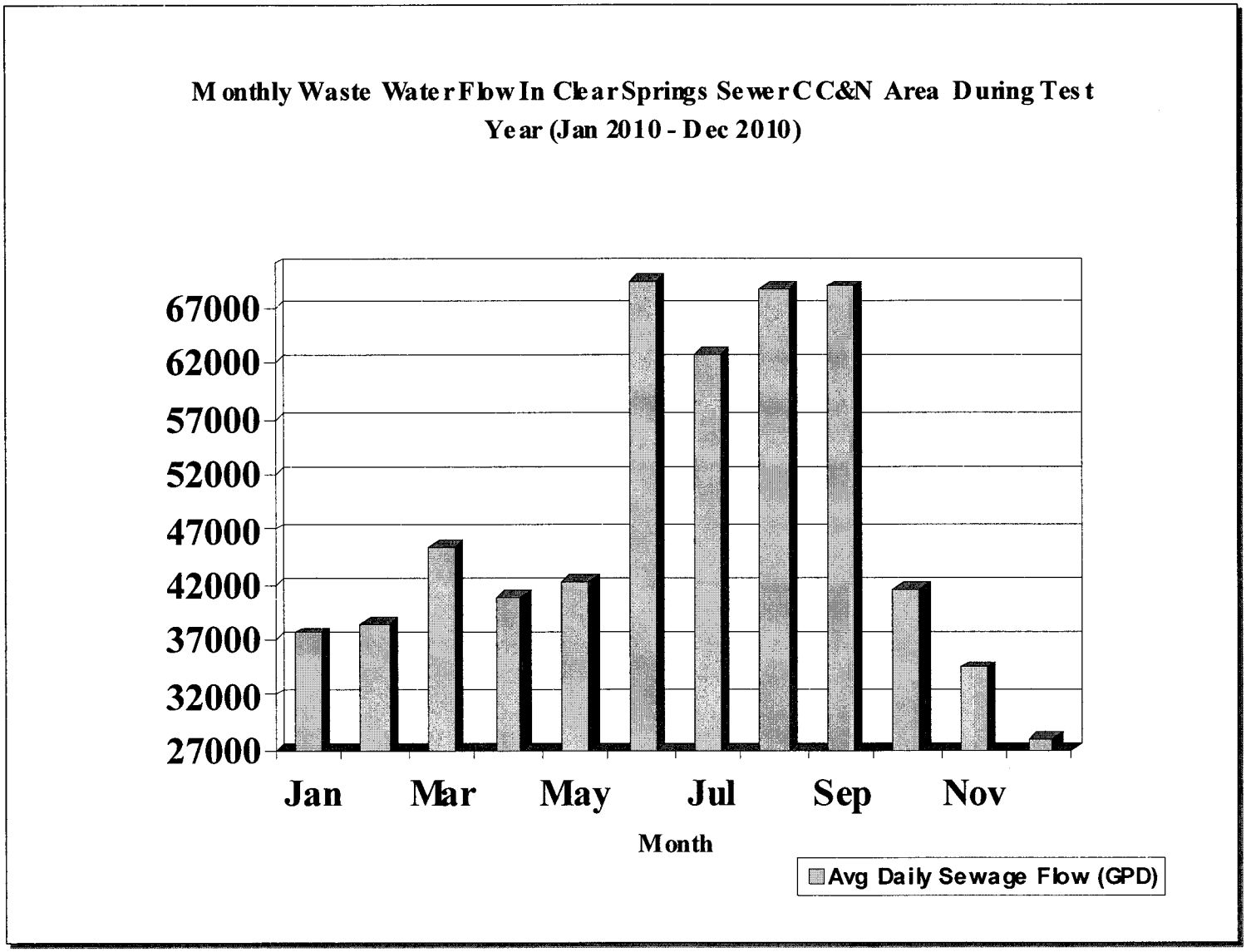

FIGURE 5

PROJECTED AND ACURATE GROWTH IN CLEAR SPRINGS WASTEWATER DIVISION

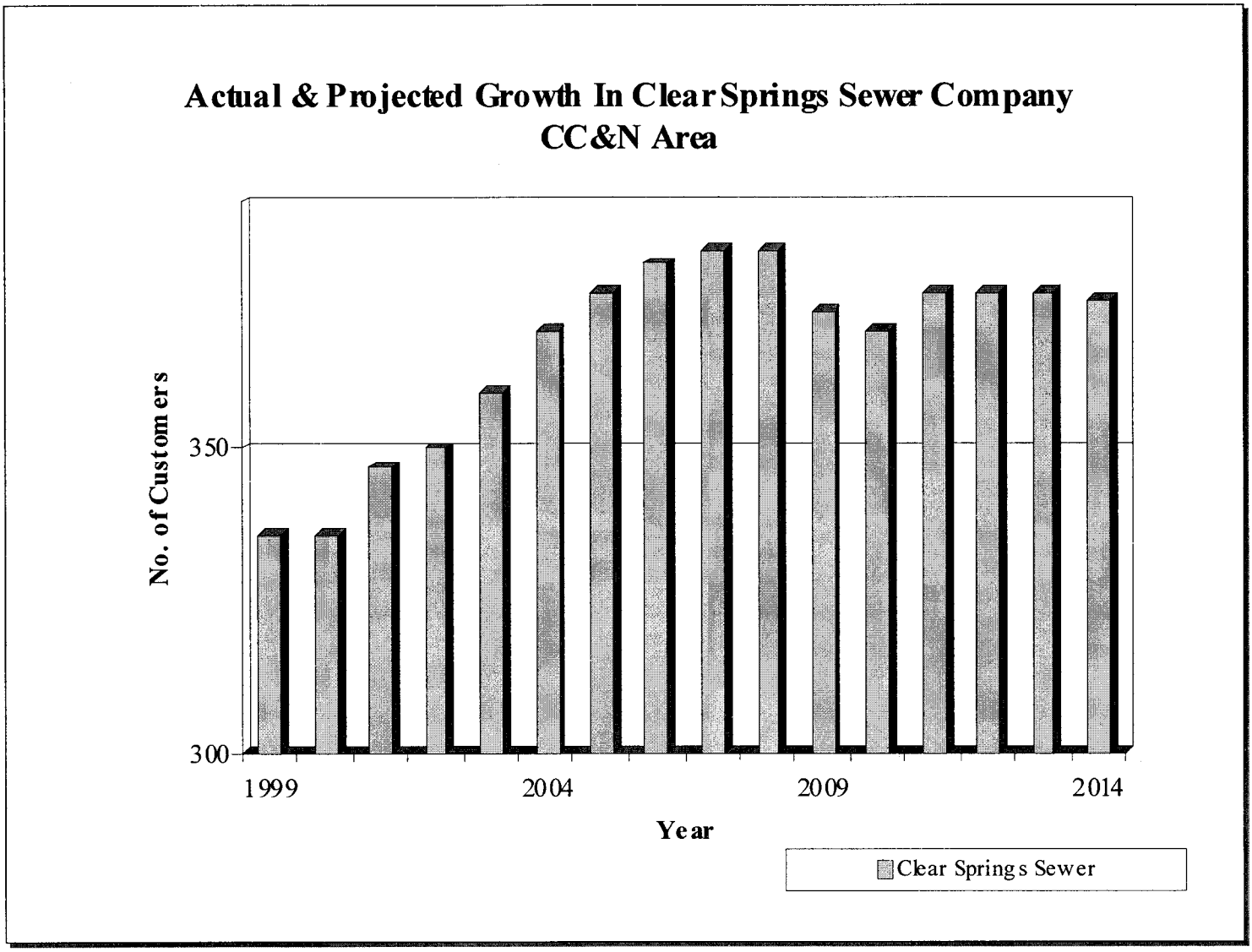

Figure 6 Depreciation Rates for Clear Springs - Wastewater Division

NARUC Acct #	Depreciable Plant	Decision #62583	Co. Proposed Rate (%)	**Staff Recommended Rate (%)**
351	**Organization**	0.00		0
352	**Franchises**	0.00		0
353	**Land & Land Rights**	0.00		0
354	**Structure & Improvements**	5.00	N/A	3.33
355	**Power Generation Equipment**	5.00	N/A	5.00
360	**Collection Sewers - Force**	5.00	N/A	2.00
361	**Collection Sewers - Gravity**	5.00	N/A	2.00
362	**Special Collection Structures**	5.00	N/A	2.00
363	**Service to Connections**	5.00	N/A	2.00
364	**Flow Measuring Devices**	5.00	N/A	10.00
365	**Flow Measuring Installations**	5.00	N/A	10.00
366	**Reuse Services**	5.00	N/A	2.00
367	**Reuse Meters & Meter Installations**	5.00	N/A	8.33
370	**Receiving Wells**	5.00	N/A	3.33
371	**Pump Equipment**	5.00	N/A	12.50
374	**Reuse Distribution Reservoirs**	5.00	N/A	2.50
375	**Reuse Transmission and Distribution System**	5.00	N/A	2.00
380	**Treatment & Disposal Equipment**	5.00	N/A	5.00
381	**Plant Sewers**	5.00	N/A	5.00
382	**Outfall Sewer Lines**	5.00	N/A	3.33
389	**Other Plant & Misc Equipments**	5.00	N/A	6.67
390	**Office Furniture & Equipments**	5.00	N/A	6.67
390.1	**Computer & Software**	5.00	N/A	20.00
391	**Transportation Equipments**	5.00	N/A	20.00
392	**Store Equipment**	5.00	N/A	4.00
393	**Tools, Shop, Garage Equipments**	5.00	N/A	5.00
394	**Lab Equipments**	5.00	N/A	10.00
395	**Power Operated Equipment**	5.00	N/A	5.00
396	**Communication Equipment**	5.00	N/A	10.00
397	**Miscellaneous Equipment**	5.00	N/A	10.00
398	**Other plants**	---	N/A	10.00